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Changes in disability insurance

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The past few years have seen dramatic changes in the disability insurance market and the coverage offered to physicians. This article will describe these changes, why they were necessary and what concerned physicians should do.

If you already have an *individual* disability insurance policy, do not let your coverage lapse. Most likely, it cannot be replaced, at any price. Disability carriers are rapidly increasing their prices and decreasing the benefits they offer to new applicants. They are doing this because lower incomes, over-insurance and benefits that are too easy to obtain have led thousands of physicians, insured by every major carrier, to attempt to "cash-in" on their disability policies. If you do not have an individual policy, now is the time to seriously consider this purchase before comprehensive coverage is no longer available.

Problem #1

During the 1970's and 1980's every disability insurance company wanted to sell as much coverage as possible to physicians, whose incomes were constantly on the rise. As managed care emerged, the income growth of physicians slowed and, in many specialties, incomes have declined. Since benefits from *individual* disability policies do not automatically fluctuate as income changes (unlike group disability benefits that pay a percentage of salary), many physicians have found themselves with disability benefits that are equal to, or greater than, their take-home pay. This problem has been made worse when medical practices are purchased because physicians suddenly become employees and find they qualify for group disability benefits that are paid in addition to their individual policy.

Over the past five years, thousands of unpredicted disability claims have been filed by physicians in this over-insured position. It is easy to understand how any person, physicians included, would be tempted by the prospect of collecting just as much money by not working as they could by continuing to work. In fact, at the last meeting of the Disability Insurance Training Council's Research Seminar (April, 1996) it was noted by every major disability carrier that the #1 problem plaguing the industry is over-insurance.

Problem #2

The second major factor noted at the meeting that is causing an increase in claim rates is that individual disability benefits have been "too easy to get." The insurance companies have no one to blame but themselves for the liberal benefits they included in many of the policies issued during the 1970's and 1980's. Full coverage for self-reported ailments and conditions that cannot be confirmed by independent medical tests will soon be a part of disability history. It has simply been too easy, for anyone, to claim that strains and sprains are preventing them from working and earning a living. In addition, claims resulting from mental and/or nervous conditions such as depression, stress and anxiety have dramatically jumped over the past few years. There is widespread speculation that many physicians may be using their disability benefits as a supplemental retirement benefit. This ease of qualification, coupled with benefits that could be payable for life and annual cost-of-living adjustments can make "being disabled", for some physicians, an extremely attractive alternative to working.

As a Result...

Many disability carriers have simply not been able to earn a profit with their disability policies and have either stopped selling disability insurance or entered into agreements to sell another carrier's policy. For example, New York Life, Equitable, The New England, Prudential and Life of Vermont have established marketing agreements to sell disability policies underwritten and administered by The Paul Revere Insurance Company. CNA, The Travelers, Jefferson-Pilot, John Hancock and Phoenix Home Life have established marketing agreements to sell the policies of Provident Life & Accident. To further confuse the situation, at the end of April, the #2 individual disability carrier, Provident, agreed to purchase the #1 individual disability carrier, Paul Revere, from its parent corporation, Textron, Inc. in a deal valued at over $1 billion. General American, Lincoln National and Manulife no longer offer disability policies.

Almost all of the policies sold to physicians prior to 1994 were non-cancelable and guaranteed renewable. This means that the insurance company cannot raise premiums, change the coverage or cancel the policy (except for non-payment of premiums). Since no adjustments can/could be made to these policies to offset the large number of physician claims, the carriers can only increase revenues by raising premiums on their sales of additional coverage to existing clients or to new applicants.

Major Changes

The first major change began in the early 1990’s in the form of sex-distinct pricing. Females may enjoy lower *mortality* and, therefore, lower *mortality* rates; but their *morbidity* rate is much higher than males. As a result, insurers now charge females premiums that are 40-70 percent higher than the unisex rates of the past. In addition, large price increases to both sexes (20-40 percent for some carriers) make new policies significantly more expensive than they were just a few years ago.

Next, disability insurers have cut the benefits available to purchase, at any price, to new physicians. Lifetime benefit periods are practically non-existent. Most disability insurers limit the individual coverage that can be purchased to a maximum of $10,000 per month ($15,000 per month total when coupled with group disability). Many carriers now limit benefits for claims resulting from mental and/or nervous conditions to a maximum of two years unless you are hospitalized.

Occupation specific coverage, known as "own occupation", has been eliminated by several of the top carriers. The specialties that have been hardest hit are Emergency Medicine, Anesthesia, General Dentistry, Oral Surgery, Orthopedic Surgery, Cardiothoracic Surgery and Neurosurgery. Most carriers are only willing to insure the *income* of physicians in these specialties, not the occupation. This means that if one of these specialists can no longer perform the "substantial and material duties of her job" she will be considered totally disabled and receive full benefits. However, if she is *earning* any money from another occupation, those earnings will be used to calculate her "loss of earnings" and the insurance company will pay a benefit that is proportional to the loss of income.

The qualifications to obtain disability insurance are also getting more difficult. The evaluation of the application, medical history and medical tests are more thorough than in the past. Blood tests, urine tests and income verification are routine for almost all applications. We have seen an increase in the number of applications that have been declined or issued with exclusions and modifications. Pre-existing medical histories including back and neck problems are quick to receive exclusions while applicants with a history of psychological or psychiatric counseling, therapy or analysis, are likely candidates for rejection.

But perhaps the most dramatic change affecting physicians has been the change to non-guaranteed premiums for some new policies. Insurance companies believe that if they reserve the right to increase premiums in the future, they have a safety valve to open if claim rates continue to rise. *Initial* premiums for these policies are lower than policies with guaranteed rates, but the thought of ever-increasing premiums can be scary.

What’s Next?

It is simply a fact that physicians are no longer as attractive a risk to disability insurers as they previously were. As incomes have decreased, claim rates have risen. The insurance companies have reacted to these higher rates by increasing premiums on new coverage and, where possible, by making the product less attractive and susceptible to abuse.

If you are considering the purchase of individual disability insurance, consider it quickly. Comprehensive policies will soon be a part of history. Each month, one or two carriers change their policy and another increases its rates. Disability insurance for physicians has become a highly specialized field. It is more important than ever to review the policies offered from several carriers. Talk with a disability insurance broker that is up-to-date on all of the changes.

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