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WHAT DISABLED DOCTORS CAN TELL YOU ABOUT DISABILITY INSURANCE

You can sidestep the troubles these physicians experienced if you set up a financial safety net as they now wish they had done.

By Warren Boroson SENIOR EDITOR

Until he actually became disabled, Robert H. Pfeifer, a 67-year-old ophthalmic surgeon in Fort Lauderdale, Fla., didn't get around to reading his disability insurance policies. Then he learned that only one of his three policies would actually pay him—and that in minuscule amounts that would continue only for two years. Nor did he qualify for Social Security disability benefits. With that kind of coverage, Pfeifer's earned income sank by 75 percent.

"You have to experience disability to take disability insurance seriously," Pfeifer says now. He speaks for three other physicians, who agree that they learned what they needed to know about proper coverage only when it was too late—after they themselves had become ill. And the three agree with another of Pfeifer's observations: "The trouble with us doctors is that we believe we're going to go on forever and never have any health problems. So we neglect our disability coverage."

All four doctors were eager to warn others not to repeat the mistakes they had made. (Two requested anonymity because they didn't want their colleagues and friends to know the severity of their financial problems.) Here are the key points the unhappy physicians make.

Get coverage for partial disability

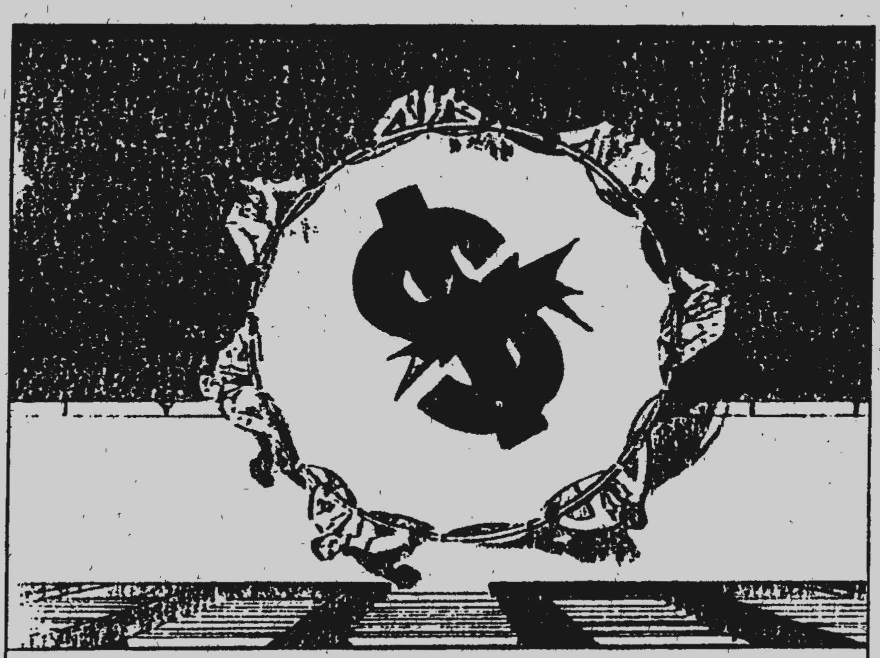
A few years ago, Pfeifer had a laminectomy for a prolapsed disk and was left with footdrop and neurological deficiencies. He was also diagnosed as having peripheral neuropathy. But Pfeifer was completely disabled for only a month—during and after the surgery—and he was determined to return to the office. "I enjoy working," he says, "and I think that 90 percent or more of all doctors enjoy their work. I never even considered not returning to the office as soon as possible."

He had to discontinue all surgery, however. Instead of working a full week, he now works only three or four hours for four days. "Even with that," he goes on, "I'm exhausted. I have to go home and take a nap in the afternoon. I'm thinking seriously of cutting down to three mornings a week."

Two of Pfeifer's policies covered him only if he became completely disabled—in insurance language, if he was not able "to perform the primary duties of his regular occupation." The third policy paid him $500 a month for two years. Pfeifer now feels that policies with no partial disability coverage are "ridiculous."

"With these policies," he says, "hardly any doctor would collect disability income when he needs it. Doctors are conscientious, and when they become sick they're eager to return to work as soon as possible, even part time. So you should have a policy that covers you if you can't do everything you did before becoming disabled. If you return to work part time, it should pay you for the reduction in your income."

Pfeifer hasn't endured financial hardship. His disability occurred



"If I had been younger, and if I had been spoiled the way young people are today, with their expensive cars and $500,000 houses, not having up-to-date coverage would've been tragic."

fairly late in life, and his outside investments made up for the drop in his earned income. But he's appalled at the thought of what might have happened if, with his poor insurance coverage, he had been disabled when he was younger, or if his outside investments hadn't been so profitable.

Besides urging other doctors to obtain coverage for partial disability, Pfeifer also suggests that they investigate individual policies, not just group policies. All three of his policies were group. "If you take out policies personally," he points out, "you can just about dictate what coverage you want."

Keep on top of your coverage

Sam Jones (not his real name), a West Coast psychiatrist, made two whopping mistakes with his disability insurance.

First, he let his policy lapse a few years ago. "I incorporated, and my policy fell between the cracks. I just forgot about it, and I didn't get any reminder notices. I had owned that policy for 14 years. It would have paid me $4,000 a month.

"After I'd let the policy lapse," he says, "I had to scrounge around for new coverage. I was 55 then, not the best age to look for disability insurance." He wound up with a policy that would pay him only $2,700 a month after he'd been totally disabled for longer than 60 days. (His yearly practice net was around $70,000.)

A year later, Jones had a heart

attack and open-heart surgery. At least, he thought, he had some coverage. Yet he didn't collect a cent.

His second major mistake had been buying coverage that didn't suit his particular circumstances: relatively low accounts receivable. He'd gone by the traditional rule of thumb that a doctor's benefit payments shouldn't begin until he has been disabled for 90 days. That long a waiting period holds down premiums. It's assumed that accounts receivable and emergency savings will tide the doctor over for those three months. That's good advice in general—but not for doctors with relatively small accounts receivable.

Psychiatrists are particularly vulnerable. Lee W. Scroggins, a management consultant with Clayton L. Scroggins Associates in Cincinnati, points out that many psychiatrists want their patients to feel personally responsible for paying them. So they insist that their patients pay them promptly and directly, without waiting for health insurance payments to come through.

Jones returned to work 88 days after he became disabled—two days short of satisfying his policy's waiting period. He'd gone through his accounts receivable.

What next, with his slim cash flow? "It's kind of hairy," he says. "I'm not capable of full-time work yet, and I don't know when I'll be back into the full swing."

Then why return to the office so soon? Jones pauses, then says, "I'm bored out of my gourd!" As for the disability insurance he'd scrambled to get: "It didn't do any good at all."

Buy coverage that lasts until you retire

A Midwestern family practitioner we'll call John Cooper was seeing 80 to 90 patients a day and earning $175,000 annually. Then he had a massive myocardial infarction. After four months, he tried to return to work. "I couldn't handle it," he says. "I cut out OB and some surgery, but the phone was still ringing day and night. So I decided to quit private practice.

"I went to work shuffling papers for a state agency. Then, after a successful bypass operation, I returned to my practice, but only part time. My earned income has sunk to 20 percent of what it used to be. But with my disability insurance and my outside investments, I'm doing well enough so far."

Cooper's disability policy pays him $3,000 a month. But the payments will end in a few months—four years short of his 65th birthday and retirement—and his income will shrink by more than one-third. "I could really use that extra $144,000," he says ruefully.

Cooper's problem stems from the fact that, when younger, he took out a policy with generous benefits but a five-year limit on them. Why? "My health was excellent back then," he says. "I had no idea that I would ever have any problems, let alone long-lasting ones. Looking back, I should have bought coverage that paid until the day I planned to retire."

Keep your coverage up to date

When Bernard Yesner, 68, an FP in Coral Gables, Fla., began practicing medicine 40 years ago, he received $3 for an office visit and $5 for house calls. He has always been frugal in his spending. So, when he bought disability policies 25 years ago, he thought $1,400 a month for total disability and $150 for partial would be "very, very adequate." Thanks to inflation, it wasn't.

In 1978, Yesner had a heart attack and was disabled for three months. In 1980, he had bypass surgery and was out for another three months. After he returned to his office, he says, "I just couldn't hack a full-time schedule and night calls. Yet I wanted to work." So he cut back his practice, and his net income plunged from $85,000 to half that amount. The policies that covered him for total disability had no waiting period and paid him $8,400 for his six months of disablity. The policy that covered him for partial disability paid him $150 a month for a maximum of six months. He wound up with $900.

"Fortunately, our needs are not great," says Yesner. "Our kids are educated, we have only a small mortgage on our house, we own a summer house in Georgia where we can vacation, and we've been slowing down our whole style of life. I was also lucky that I had been able to invest a bit and got a good return. We can get along.

But if I had been younger and had been spoiled the way today's young people are, with their expensive cars and their $500,000 houses, not having up-to-date coverage would have been terrible."

Yesner, who has just retired, urges doctors to sit down with their spouses to arrive at a realistic estimate of how much money they will need to live on if they are disabled. The estimate should take into consideration their outside income and standard of living. Most authorities think 60 percent of their usual income is enough. "And," Yesner adds, "doctors shouldn't make my mistake of assuming that the insurance they bought years and years ago will be adequate today."

In sum, the disabled physicians recommend that other doctors obtain adequate coverage for partial disability, not just total disability; that they get benefits lasting until they're 65 or whenever they plan to retire, not just for five years; that they update their coverage regularly; and that they add riders to keep their actual benefits tied to the inflation rate.

And, they warn, don't count on Social Security disability benefits. Most people don't qualify, mainly because Social Security pays off only if you're permanently disabled, and its definition of permanent disability is strict. Even if you do qualify, it usually takes at least a full year before Social Security benefits begin.

Effective disability coverage, of course, costs more than halfway measures. But you may be surpised to find how little extra it costs. If a 45-year-old wants such a policy paying $3,500 a month for total disability (the most he might be able to get from one company), a typical insurer's yearly premiums would be about $2,200, only $400 or $500 more than for lesser coverage.

According to doctors who have actually been disabled, the right coverage would be well-worth its extra cost. ■