The KeyArx Group℠

HOW TO STRESS TEST

GROUP LTD PLANS FOR HEALTHCARE PROFESSIONALS

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PAUL CELLA

- Managing Principal of the KeyArx Group
- 30+ years of experience

"STRESS TEST" INTRODUCTION

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OF A GROUP LTD POLICY TO "STRESS TEST"

PAUL CELLA

Paul Cella has over 30 years of experience in the insurance world. He specializes in providing insurance and financial advice to physicians, professionals, business owners and high net worth individuals.

Paul entered the financial planning field in 1989 as an affiliate of Northwestern Mutual, one of the largest and most admired insurance/investment firms in the industry. Over the next 19 years, Paul became acutely aware of the unique needs of sophisticated clients. Fueled by his desire to deliver a comprehensive array of advanced products, services and financial strategies to this exceptional group, Paul used his vision and creativity to launch The KeyArx Group in 2006.

In founding the KeyArx Group, Paul has been able to bring to the marketplace that which he envisioned, a unique process which brings together an in-house team of highly educated and talented financial professionals with a vast array of experts from a diverse range of disciplines. The KeyArx Group team includes; an interdisciplinary group of actuarial, family office, tax & estate attorneys, CPA, advanced planning and consulting experts. Paul has engineered a highly sophisticated platform allowing him to deliver high-quality, cost-efficient integrated wealth management strategies to his clients.

Paul's practice has evolved into designing specialty products and structures benefiting clients and financial advisors around the country. Specific emphasis has been directed to the development of cutting-edge disability products for the medical and affiliated professions. Paul’s expertise and national reputation in this arena has resulted in appearances as a key-note speaker throughout the United States at industry functions, continuing education events and seminars.

Education & Licenses

- Chartered Financial Consultant (ChFC)
- Chartered Life Underwriter (CLU)
- Center for Tax Strategies & Resources Faculty Member
- Widener University 1986, BS Management, MIS Minor
- National Speaker at various industry groups (Ash Brokerage, EPG, Hilton Institute for Business)
- Nationwide 401k Advisory Board Member
- Partner of the Hilton Institute for Business
- Insurance: * DE, MD, NH, LA, MI, CO, KS, NJ, NY, PA, TX, CA, SC, NC, IL, FL, OH, VA, WV, GA, MI
- General Agent: Sun Life, MGIS, Hartford, Unum, Lincoln, Principal, Standard, One America, Mutual of Omaha and Lloyd’s of London

A STRESS TEST,

In financial terminology, is an analysis or simulation designed to determine the ability of a given financial instrument or financial institution to deal with an economic crisis. Banking and insurance regulators regularly perform stress testing where they look at how robust a financial instrument is in certain crashes.

WHEN WAS THE LAST TIME YOU TESTED YOUR CLIENTS' GROUP LONG-TERM DISABILITY (LTD) POLICIES?

YOU MAY WONDER:

Why do I need to stress test my client's Group LTD plan? Aren't they all about the same, and aren't all of them fully insured by reputable insurance companies? Shouldn't I be more worried about client service, renewal increases and billing issues? These REALLY get my clients upset!

YOU MAY BE CORRECT

LTD policies and carriers are generally about the same. However, not all insureds are the same, not all policy language is the same, and not all disabling events are the same.

And these differences, you may find, could very well test the limits of your clients' group LTD policies in ways that are both unexpected and unpleasant. And you'd have to agree that group LTD policies are financial instruments (promises to pay significant amounts of money over time) and that a disabling event represents a "crash" to the claimant.

DO NOT EXPERIENCE A CLAIM UNPREPARED

Keep in mind that group LTD is the epitome of what insurance is designed to do: Protect the insured for incidents that occur rarely, but when they do occur, are very costly. Loss of income for an extended period of time is potentially a catastrophic event for someone who is also adjusting to dealing with a major medical issue. Every claim is a “crash” that tests the language of the policy.

But it is the fact that claims occur so rarely in a particular company setting that often leads the Employer and their advisor to neglect the needed review of this vital protection. “We’ve never had a claim!”

START BY TESTING POLICES FOR HIGHLY COMPENSATED MEDICAL PROFESSIONALS

Brokers should conduct an LTD stress test of ALL their clients' LTD policies; however,

I would strongly suggest as a top priority testing policies insuring highly compensated owners or partners who perform specific tasks and procedures for their employer which may be different from those performed for other employers.

A perfect example of such a client would be a physician or dental practice.

PHYSICIANS AND DENTISTS ARE LIKELY:

• To already have an individual DI policy (or several) with liberal definitions and few restrictions or limits.

• To assume the Group LTD policy will perform the same way and pay the benefit as their IDI policy will.

• To be paid in a variety of ways (draws, bonuses, ownership income, 1099) that may not have been captured correctly by the policy language when initially set up.

• To have purchased the LTD policy primarily to increase their own income protection (and only secondarily as an employee benefit). The physicians and dentists may care a great deal about the performance of the policy!

And you can be sure a highly intelligent, medically savvy physician will have strong opinions about the LTD claim processes and claim adjudicators' requests and decisions!

FOR A MEDICAL PRACTICE,

THE FIVE KEY AREAS

OF A GROUP LTD POLICY TO "STRESS TEST" ARE THE FOLLOWING:

DEFINITION OF DISABILITY

An LTD policy's definition of disability is the "golden gatekeeper" to the policy benefits - meaning, if a claimant does not meet the definition of disability, he or she is not eligible for benefits and therefore no benefits are payable. Just because an insured employee has experienced a medical condition that may hinder their employment, this does not necessarily mean this employee will receive a benefit. Only by meeting the definition of disability will the claimant be paid a benefit.

In general, the claimant must meet the following requirements:

1. Be unable to perform one or more of the material and substantial duties of their occupation

2. If performing these duties on a modified basis (part-time, partial duties), the claimant must experience an earnings loss of some amount (often 20% or more).

Some policies may only require an income loss or a loss of duties. However, most LTD policies are likely to require both.

IMPORTANT TERMS AND THEIR DEFINITIONS

MATERIAL AND SUBSTANTIAL DUTIES

These are the tasks, procedures, and duties that are required by your employer for you to do your occupation (as defined later).

They are not tangential or occasional – i.e., an employee going to Starbucks occasionally to pick up their boss's favorite drink is NOT material or substantial! Also, these duties may be limited by the policy to a 40-hour work week; meaning, if you were working overtime prior to your disabling event, and you can still work 40 hours – but not overtime – then you would not be considered eligible for disability benefits. For physicians who often work 60-70 hours a week, this limitation may be a critical issue ("stressor") in determining their eligibility for benefits.

DEFINITIONS OF MATERIAL/SUBSTANTIAL DUTIES AND OCCUPATION ARE A MINEFIELD FOR MOST PHYSICIANS AND DENTISTS.

Physicians and dentists are inventive, curious, highly educated and motivated, and many focus on just one very finite area of medicine. There are 128+ medical specialties and sub-specialties recognized by the American Board of Medical Specialists (ABMS). But there are numerous areas of “focus” that are not yet ABMS-recognized (spine surgery is one example).

Physicians often test the boundaries of their area of focus by creating and implementing new technologies and approaches to help their patients. I once met with one such doctor, a highly skilled ENT specialist, on whose desk was proudly displayed his patent for a medical device he invented for a nasal surgery he created. Was this cutting-edge surgery fully covered by his LTD policy? He didn’t know. And he should know.

This hyper-specialization, however, may create “stress” at claim time when considering what a physician’s occupation really is. Is it as broad as an MD – Medical Doctor? Is it the limited # of medical specialties (in the 20s) included in the all encompassing Dictionary of Occupation (DOT) published by the US Department of Labor? Is it their ABMS-recognized specialty or sub-specialty?

OCCUPATION

This is the job you were performing just prior to your disabling event.

“Occupation” is typically defined as the tasks and duties normally performed at employers “in the national economy” – meaning, the occupation you are doing in Atlanta is considered to have the same job duties as the same occupation in California. Language may also be included that specifically states that these job tasks are not based on what the employee was doing for a particular employer. Some policies may differentiate between “job” (what YOUR actual duties were) and “occupation” (what is typically done by someone in that job).

YOU'LL FIND IN MOST LTD POLICIES
ONE OF THESE DEFINITIONS OF "OCCUPATION"
(FROM GENERAL TO SPECIFIC):

Own Occupation for first 24-36 months / Any Occupation thereafter / Medical Doctor

If not further defined in the policy, Occupation will be as broad as an MD's duties. "Any Occupation" typically means ANY job you could reasonably be expected to do, based on education, training or experience, that could provide the claimant (within the next 12 months) 60%-85% of the claimant's Pre-Disability Income. Another approach is any job that could earn the claimant an income which matches their LTD benefit (so, typically 60% of income, but could be far less for a highly compensated employee).

NOTE: This definition is problematic for a highly compensated physician.

Own Occupation for benefit duration / Medical Doctor

If not further defined, it will be broad as an MD's duties, meaning that if a specialized doctor cannot perform the procedures he was previously doing – but could perform the normal tasks of a general medicine doctor -- then he would not be considered disabled.

Own Occupation for benefit duration / Based on DOT list

Better only for those performing the 20 or so specialties listed in the DOT.

Own Occupation for benefit duration / Based on being "certified" in an ABMS specialty and/or sub-specialty

Certification is much like an agent obtaining a CLU designation (a credential designating further education and experience). Allows for the definition of occupation to be more specialized (128 general or sub-specialties) if Board Certified. Also, typically requires more than 60% of income in the two years prior to disability to be earned in that specialty or sub-specialty.
NOTE: About 90% of all medical doctors are currently board certified. Younger doctors are less likely to be certified.

Based on ABMS Specialty / no certification required

Based on ABMS specialty or sub-specialty / no certification required

Actual Procedures

The Physician's actual procedures and duties at the practice – based on CPT codes, job description, medical malpractice insurance coverage, etc. – Allows for the definition of occupation to be specific to what EACH physician or dentist does at their specific practice.

Some of these definitions may meet the needs of some less-specialized physicians.

TO PREVENT "STRESS" AT CLAIM TIME

Ask your physician client which definition most likely helps them sleep better at night.

One that MAY capture their duties and procedures, or one that specifically says – in writing – that it will BE their ACTUAL procedures and duties.

Keep in mind that this definition may be a little more costly, and it may take a little more information-gathering at claim time. But it is also the definition most likely to match up with their individual disability insurance (IDI) claim experience.

EARNINGS LOSS REQUIREMENT

This requirement is often stated this way: “You must have Disability Earnings of less than [80%-99%] of your indexed Pre-Disability Earnings.”

1. **Indexed Pre-Disability Earnings (PDE)**
   typically includes base W2 earnings; may include bonuses.

2. **Disability Earnings (DE)**
   generally, income received while disabled.

Keeping in mind that the LTD policy is designed to prevent a disincentive to return to work by providing “too much” money to the claimant, these definitions are very important – and especially to a Physician.

DEFINITION OF EARNINGS

PRE-DISABILITY EARNINGS

A Physician’s income can be very complicated and may consist of a draw, W2 income, production bonuses and/or ownership income (often referred to as “K-1” income).

However, if an HR director, practice manager or broker who is not “disability savvy” is asked how “pre-disability earnings” (PDE) should be defined for their particular practice (it’s a policy “variable”).

THEY MAY MAKE THE FOLLOWING MISTAKES:

a. Only include base W2 earnings
Which applies to most employees. However, base W2 earnings may account for less than ½ of a physician’s income.

b. Not include bonuses.
Physicians often receive substantial production bonuses.

c. Not be concerned about the above decisions
Because the Physicians’ W2 incomes alone are well above the “maximum covered earnings” (how much income is needed, when multiplied by the benefit % (typically 60%) to achieve the maximum monthly benefit purchased (so, $16,667 a month “covers” a $10,000 benefit at 60% of income).
So, no harm (they think) by NOT including bonuses or K-1 income.

WHAT'S THE PHYSICIAN'S "STRESS" FROM THE EARNING LOSS REQUIREMENT?

Consider that in most policies a partially-disabled claimant (meeting the loss of duties and loss of earnings requirements) will receive a partial LTD benefit – not typically the full benefit. And partial benefit calculation(s) is often a function of the claimant's PDE versus their Disability Earnings (DE). So, it is ALWAYS advantageous to the claimant that their PDE be as HIGH as possible relative to the income they may still be receiving while disabled. Advantage = a higher benefit!

HERE'S AN EXAMPLE

Dr. Smith earns $20,000 a month in W2 income.

- As a partner, she earns an additional $20,000 monthly on average.
- Her LTD plan is 60% of PDE to a maximum of $10,000 a month benefit.

So, if she were totally disabled, her benefit would be $10,000/month since 60% of $20,000 is greater than the benefit maximum of $10,000

Suppose Dr. Smith experiences a disabling event and is only able to work part-time and can only earn $10,000 in monthly W2 income.

However, she is still receiving approximately $20,000 in monthly K-1 income (perhaps a little less, as she is not “profiting” the practice fully by working part-time).

Based on an Indexed PDE definition that
only includes W2 income, her loss of income would be:

[Indexed PDE - DE] / Indexed PDE = % loss of income

[$20,000 - $10,000] / $20,000 = 50%

However, based on an Indexed PDE definition that includes
W2 and K1 income, her loss of income would be greater:

[$40,000 - $10,000] / $40,000 = 75%

Including ALL income in the definition of PDE will not hurt, but only help, if a partial disability occurs.

Another KEY Point based on the previous scenario:
make sure the policy defines DE as
the work income earned and received while disabled
(this is NOT usually a policy variable).

THIS ELIMINATES TWO COSTLY ISSUES:

a. Receivables

Physicians are often paid several months after performing a procedure. If receivables are included in DE, it will reduce the partial disability benefit, as it will appear the physician is “earning” more income while disabled than he or she is actually “earning”. This income was “earned” prior to disability! Note that this is a concern primarily during the first 12 months of disability, as receivables will gradually lessen over time.

b. K-1 Income

Specifying DE as “work income only” prevents K-1 income from reducing the partial disability benefit.

Based on an Indexed PDE definition that includes only W2 AND a DE that includes K-1 income, her loss of income would be:

[$20,000 - $30,000] / $20,000 = NEGATIVE
does NOT qualify for disability benefits

So, it is crucial to understand, and account for correctly, a physician's or dentist's income when setting up this area of the LTD policy.

PARTIAL DISABILITY BENEFIT CALCULATIONS

CONTINUING WITH THE "STRESSORS" YOU'LL ENCOUNTER IN AN LTD POLICY

Consider that physicians are more likely to be partially disabled (disabled and working) than the average employee. This is typically attributed to the fact that doctors are highly educated, motivated, and leveraged – they tend to earn a high income relative to the average employee but their high "outgo" (student loans, houses, luxury cars, boats, private schools, etc.) may force them to back to work to earn some income.

Assuming a physician with a disabling condition meets the policy's definition of disability and is working in some capacity (at the same job or at a different occupation), the LTD policy is designed to provide a period of time that offers an incentive for this partial work to continue (in the hope parttime work will turn into fulltime work – and therefore the claim ends).

This is often called the 100% Return to Work (RTW) Incentive period.

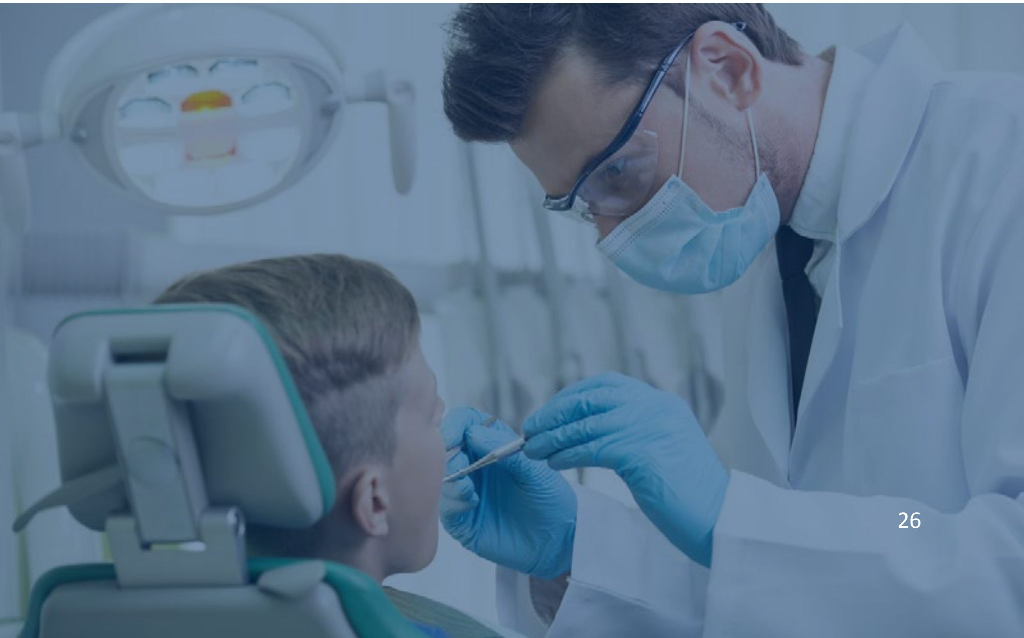
HERE'S HOW THE RTW PERIOD WORKS

If a claimant's DE added to their monthly LTD benefit (what they would receive if totally disabled) combines to be equal to or less than 100% of their indexed PDE, then the claimant does NOT experience a reduction of his or her benefit – and essentially is made "whole" financially.

However, if the sum of the two (DE + LTD benefit) is more than 100% of indexed PDE, then the LTD benefit will be reduced until the sum is 100%.

Again, keep in mind that the definition of PDE selected by the group, plus the policy's definition of DE can have a negative effect on the claimant's LTD benefit payment.

However, the policy also likely limits the RTW period to the first 12 months (typically) or perhaps 24 months (policy variable) of benefit payments – as the carrier does not want the claimant to work part-time while being made whole for too long (where's the incentive to work more hours?)



After the RTW period, if the claimant continues to work part-time or perform partial duties, then there are two formulas most often used to calculate partial benefits going forward:

1. PROPORTIONATE LOSS FORMULA
2. 50% OFFSET FORMULA

We have already seen an example of the proportionate loss formula used for Dr. Smith, and how the definitions of PDE and DE can have a significant effect on her being able to meet the income loss qualification.

The 50% Offset Formula is very simple, as it merely reduces the monthly LTD benefit by 50% of DE. There is no reference to PDE in this formula – other than to determine the gross monthly LTD benefit – just DE.

SCENARIO

Suppose Dr. Smith experiences a disabling event and is only able to work part-time and can only earn $10,000 in monthly W2 income. However, she is still receiving approximately $20,000 in monthly K-1 income (perhaps a little less, as she is not "profiting" the practice fully by working part-time). Here's what happens:

PROPORTIONATE LOSS FORMULA

PDE = ONLY W2 INCOME

Based on a PDE definition that only incudes W2 income, and a DE definition that does NOT include K-1, her partial benefit (after the RTW period) would be:

[Indexed PDE - DE] / Indexed PDE X Total LTD Benefit = Partial Benefit

[$20,000 - $10,000] / $20,000 X $10,000 = $5,000 Partial Benefit

PDE = W2 AND K-1 INCOME

Based on an Indexed PDE definition that includes W2 and K-1 income, her partial benefit (once she qualifies) would be:

[$40,000 - $10,000] / $40,000 X $10,000 = $7,500 Partial Benefit

50% OFFSET FORMULA

With the 50% Offset Formula, the PDE definition doesn't matter, and Dr. Smith's partial benefit (after the RTW period) would be

Total LTD Benefit - (DE X 0.50) = Partial Benefit

$10,000 – ($10,000 X 0.50) = $5,000 Partial Benefit

So, in this scenario, the 50% Offset formula Partial benefit, regardless of the PDE definition, would be the same as the Proportionate Loss formula with the inferior definition of PDE.

Including ALL income in the definition of PDE will not hurt, but only help, if a partial disability occurs.

Now, let’s see what happens when the definition of DE – unfortunately – includes K-1 income received by the Physician while on claim:

PROPORTIONATE LOSS FORMULA

Based on a PDE definition that only includes W2 income, her partial benefit (once she qualifies) would be:

[Indexed PDE - Disability Earnings] / Indexed PDE X Total LTD Benefit = Partial Benefit

[$20,000 - $30,000] / $20,000 X $10,000 = NEGATIVE*

*Partial Benefit defaults to the policy’s minimum monthly benefit – usually either:

A. Greater of 10% of LTD benefit or $100 = $10,000 X 10% = $1,000 benefit,

OR

B. Flat $50 or $100

Based on a PDE definition that includes W2 and K-1 income, her partial benefit (once he qualifies) would be:

[$40,000 - $30,000] / $40,000 X $10,000 = $2,500 Partial Benefit

50% OFFSET FORMULA

Total LTD Benefit minus (DE x 0.50) = Partial Benefit

$10,000 – ($30,000 X 0.50) = NEGATIVE*

*Partial Benefit defaults to the policy's minimum monthly benefit – usually either:

A. Greater of 10% of LTD benefit or $100 = $10,000 X 10% = $1,000 benefit,

OR

B. Flat $50 or $100

So, in this scenario, the Partial benefit is significantly affected by the DE definition – resulting in a benefit as low as $50-$1,000! So, depending on the definitions of PDE and DE, the range in benefits payable, after the RTW period, could be as high as $7,500 or as low as $50-$100.

PICTURE THIS

For 12 months in a row (the RTW period), a partially disabled Dr. Smith has walked to her mailbox to pick up her $10,000 LTD benefit from XYZ insurance company. On the 13th month, she goes to the mailbox, opens the envelope from XYZ Insurance Company, and instead of $10,000, her check is only $1,000 – or worse – only $50. Who is the first person she will likely call? You, her advisor or employee benefits broker? Her attorney? This is a definite policy “stressor!”

Keep this in mind: The higher the income of the claimant prior to disability, the better the Proportionate Loss formula is for this claimant; whereas the lower the pre-disability income is, the better the 50% Offset formula works for a claimant. Why? Because the Proportionate Loss formula accounts for the difference between what a claimant used to earn and what they are currently earning, whereas the 50% Offset formula only accounts for what the claimant is currently earning while disabled – and the higher the claimant’s PDE, the higher the Disability Earnings will be if working parttime.

BEST POLICY LANGUAGE

A partial benefit based on the highest benefit calculated by these two formulas (sometimes called, “best of both worlds” or “higher of”) allows each claimant – regardless of their pre-disability income -- to receive the highest benefit possible.

In this way, each claimant – regardless of their income level – takes advantage of the formula that works best for them.

One further note: A few Group LTD carriers offer an “extended RTW period beyond 12 or 24 months – even to the policy duration – but this seemingly more liberal calculation may be partially or totally negated by the policy’s definition of PDE and DE.

You may have noticed the word “indexed” in regard to PDE. The Proportionate Loss formula includes “indexing” of PDE – which in plain English means that the claimant’s PDE is increased each year by some percentage solely to mirror the likelihood he or she would have received an annual raise if not for being disabled.

Indexing does not increase the LTD benefit for someone totally disabled (as a Cost-of-Living Adjustment Benefit -- or COLA -- would), but it can provide a slightly higher benefit year after year to a partially disabled claimant with a policy including the Proportionate Loss formula.

Indexing can be a flat percentage (3%-5%) or a function of the Consumer Price Index (CPI) --1/2 CPI; or lesser of CPI or 7%-10%.

But ALL formulas are significantly enhanced with the “proper” accounting of the claimant’s PDE and DE in the policy language.

BENEFIT OFFSETS & REDUCTIONS

WHAT CAN REDUCE YOUR BENEFIT?

LTD POLICIES HAVE "OFFSETS"

Other income sources that provide benefits while the claimant is disabled.

These are usually triggered by the disability itself – but not always.

EXAMPLES INCLUDE

- **Social Security Disability (SSDI) benefits**
- **Workers Compensation**
- **Settlements for "loss of time"**
- **Other Group LTD coverage**
- **Retirement Income**

Social Security Disability (SSDI) benefits
The most common offset, although very difficult to qualify for: Unable to perform the duties of ANY occupation or expected to die in the next 12 months.

The claimant is considered "Primary";
Spouse and children are considered Family.

There are three LTD policy options:

Direct Primary and Family (or just "Family")
Reduces the LTD benefit dollar-for-dollar for SSDI benefits received by claimant and dependents. By far the most common offset language.

Direct Primary only
Same as above, except no offset for benefits received by dependents (if any). Only helpful if you have no dependents. More expensive option.

All Sources Integration (or "Indirect" method)
Allows for a lesser amount of offset if the claimant's LTD + SSDI combines to be under a certain % of PDE (typically 70%). Most expensive option.

Workers Compensation
Dollar-for-dollar offset for WC disability benefits received for on-the-job accidents

Settlements for “loss of time”
Dollar-for-dollar offset for a portion of a settlement specifically for loss of time. No reduction for awards for damages.

Other Group LTD coverage
a claimant typically cannot be insured under two group LTD policies, or they will offset each other. “Stacking” of LTD policies is not allowed.

NOTE: Individual Disability Insurance (IDI) coverage is NOT usually an offset; however, look for language that makes IDI an offset IF it was purchased by the Employer – or even if the Employer just made it available for purchase through the practice (payroll deduction).

Retirement Income
Dollar-for-dollar offset for retirement income obtained for personal use that was originally contributed by your Employer. No offset if it was your contribution, or if money is rolled over to another retirement vehicle.

One common offset of CLEAR stress for owners, partners and shareholders is K-1 or ownership income.

Most owners, if disabled, will still receive most, if not all, of their ownership income – until such time they are bought out (if ever).

We've discussed the impact of K-1 IF it is included in the definition of DE. However, what if, instead, it is listed as a policy offset? How do LTD policies handle this income?

POTENTIAL K-1 OFFSETS

1. No offset
2. No offset if 100% or less
3. Dollar-for-dollar offset only IF included in PDE
4. Always a dollar-for-dollar Offset

1. No offset
Isn’t mentioned in the offset section of the policy.

2. No offset if 100% or less
No offset if the LTD benefit, combined with K-1 income, is 100% or less of PDE.

NOTE – if K-1 is included in PDE, then it is almost impossible for the combination of LTD and K-1 to exceed 100% of PDE – so no offset.

3. Dollar-for-dollar offset only IF included in PDE
Often phrased as, “income of a type used to determine the monthly LTD benefit.” This wording eliminates the value of including K-1 in the definition of PDE – so will lower the net benefit payable.

4. Always a dollar-for-dollar offset
Worst-case scenario.

From our previous scenario, assume Dr. Smith is not working at all, and that her total disability benefit is $10,000 prior to offsets. Here's what happens IF K-1 is a policy offset:

$10,000 LTD Benefit - $20,000 K-1 income = NEGATIVE*

*Partial Benefit defaults to the policy's minimum monthly benefit – usually either:

A. Greater of 10% of LTD benefit or $100 = $10,000 X 10% = $1,000 benefit,

OR

B. Flat $50 or $100 = $50-$100 benefit

The result? Practice owners may see their expected $10,000 benefit reduced to the minimum payable ($100?!) if they receive $10,000 or more in K-1 income while disabled. This is clearly a significant stressor for the claimant and their advisor!

PICTURE THIS

A totally disabled Dr. Smith gingerly walks to her mailbox to pick up her initial expected $10,000 LTD benefit from XYZ insurance company. She opens the envelope from XYZ Insurance Company, and instead of $10,000 her check is only $1,000 – or worse – only $50. She immediately calls the insurance company who tells her that as long as she is a partner or shareholder, and receiving K-1 income, then her LTD benefit will be essentially the same each month – and this is regardless of the definition of PDE and DE. Who is the next person she will likely call? You, her advisor or employee benefits broker? Her attorney? This is another definite policy “stressor”!

LIMITATIONS, RESTRICTIONS, AND REQUIREMENTS

LTD policies contain limitations, restrictions, and requirements that are designed to limit certain claims and to “force” certain behavior. This language can lower a physician’s benefit – or even cause the benefit to end prematurely.

Some examples are:

- Mental/Nervous and Substance Abuse limitations
- "Self-reported” or “special” conditions
- Maximum Capacity language
- Part time Work requirement
- Mandatory Rehabilitation
- Recommended treatment requirement
- Foreign Residency restriction

MENTAL/NERVOUS AND SUBSTANCE ABUSE LIMITATIONS

Virtually all LTD policies limit the duration of claims related to these conditions; however, some are more punitive than others (in order of more liberal to most restrictive):

- 24 months per occurrence per condition – allows for relapse situations
- 24 months lifetime max combined
- 12 months per occurrence per condition -- allows for relapse situations
- 12 months lifetime max combined

Why a stressor? Over 60% of physicians in a recent study exhibited clinical signs of burnout. Physicians also have more access to prescription medicine and are more likely to become addicted to alcohol.

"SELF-REPORTED" OR "SPECIAL" CONDITIONS

Limits claims that are hard to objectively test for. Conditions usually listed in the policy are Fibromyalgia, Chronic Fatigue, carpal tunnel syndrome, chemical sensitivities, musculoskeletal and connective tissue disorders, and migraines.

- No limits (best language)
- 24 months lifetime max combined with M/N/SA conditions (most common)
- 12 months lifetime max combined with M/N/SA conditions

MAXIMUM CAPACITY LANGUAGE

Reduces the claimant's partial LTD benefit if deemed by the carrier to not be working to his or her "maximum capacity". Example: Disabled doctor works 20 hours per week but the claims department, based on advice by outside medical and occupational advisors, believes the claimant could work 30 hours. Result – the partial LTD benefit would be recalculated based on what the claimant "could" have earned if working 30 hours, and the LTD benefit would be reduced accordingly.

Stressor? This seems to be a very subjective penalty.

PART TIME WORK REQUIREMENT

Requires a claimant to work partial duties or part-time in his or her occupation, if able. The claimant has no choice. Failure to comply means the benefit terminates.

Stressor? Consider that a surgeon who is unable to perform surgery may be required to return to the desk duties he performed prior to disability. Or else.

MANDATORY REHABILITATION

Requires a claimant who can be retrained to work in another occupation to do so – or the benefit is terminated.

Stressor? Physicians do not typically like the idea that they may be “forced” to be retrained to do something else.

RECOMMENDED TREATMENT REQUIREMENT

Requires a claimant to undergo treatment or surgery recommended by the medical community to reduce or eliminate the disabling condition.

Stressor? There's no choice given to the claimant.

FOREIGN RESIDENCY RESTRICTION

Terminates the LTD benefit after 12 months if the claimant does not reside in the U.S. or Canada for at least 6 months a year.

Stressor? Over 25% of Physicians currently practicing in the U.S. received their medical degree in another country. A disabled Pakistani physician might want to return to family in Pakistan. Or suppose a doctor buys property in Costa Rica to retire to – and then becomes disabled near retirement age and decides to retire there. Both situations may result in loss of LTD benefits after 12 months.

THE BEST APPROACH TO LTD LIMITATIONS, RESTRICTIONS, AND REQUIREMENTS?

Look for the most liberal M/N/SA limits and avoid special condition limits, max capacity language, part-time work requirements, recommended treatment requirements, and foreign residency requirements.

We’ve taken quite the “deep dive” into key Group LTD policy language and how, if not properly examined before purchase, and properly constructed when implemented, can create considerable financial, and emotional, stress in the event of a disabling condition.

However, a thoughtful approach to this key financial protection instrument will allow both you and your client, to sleep much better at night.