

Reduce Your Risks With Insurance Coverage

All the financial-planning goals mentioned in the previous section rest on certain assumptions. To live comfortably and eventually retire gracefully, you generally need to have a long, productive career. Unfortunately, that's not always possible, even with the best of intentions.

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Certain lifestyle practices can reduce your exposure to such drawbacks. You can avoid smoking, heavy drinking and other substance abuse, for example, and exercise regularly. Even so, tragedies can strike even the healthiest physician, so it's prudent to manage your risks as well as you can.

For true risk management, you need to put together a sensible portfolio of insurance policies so that you'll have adequate coverage but not pay so much in total premiums that you'll ruin your overall financial plan.

"Your number-one concern should be family protection," says Diahann Lassus, president of Lassus Wherley & Associates, a wealth-management firm in New Providence, N.J. "You want to make sure you have adequate amounts of life, disability and lia-

bility insurance.”

Especially for young physicians with families, life insurance may come first. If you should die, your expected earnings will be sorely missed. Your surviving spouse may be hard-pressed to pay the daily bills and provide for the children’s education.

How much life insurance should you have? Finding the right answer may not be easy.

“I’d suggest you gather your personal financial information and review your family’s needs,” says Denise S. Friday, vice president of AMA Insurance Agency, a wholly owned subsidiary of the American Medical Association. “It may come down to asking some tough questions about what the financial impact would be on your family if anything happened to you and/or your spouse. Even if you have coverage through your employer or substantial savings, it is important to evaluate whether your loved ones would be adequately protected.”

Ms. Friday says that many insurance companies provide on-line “life insurance needs calculators” that can help you determine your life insurance needs. Such a comprehensive estimation tool can be found in the “Answer Center” on the AMA Insurance Agency’s Website (www.amainsure.com).

Another approach is to use one of the quick formulas that are common in the marketplace to help you determine how much life insurance you may need. These formulas, according to Ms. Friday, are usually based on your annual income. “As a general rule of thumb,” she says, “many experts agree that people with fam-

Why People Buy Life Insurance

- For immediate needs at the time of death, such as medical expenses, funeral costs, estate taxes or probate.
- For a readjustment period, giving survivors time to find work.
- For your children’s education and your spouse’s retirement.
- To pay off a mortgage or other personal and business debts, allowing heirs to get a debt-free start.
- To leave your family, say, three months’ worth of living expenses, in case of unforeseen expenses.
- To enable survivors to maintain their standard of living.

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The lower amount may help your family take care of your final bills and leave enough money to cover some ongoing living expenses. The higher amount, on the other hand, may help your family continue its current lifestyle and provide a fund for emergencies or long-range needs such as college.

What’s the best solution? “Choose the amount that allows you to feel secure that your family could continue their way of life,” says Ms. Friday, “even if you are not there to help them maintain it.”

You should reevaluate your life-insurance coverage annually as well as at the time of major life events, such as marriage, divorce, birth or adoption of a child and the purchase of a home.

Although circumstances will differ, many families find a need to replace 60 percent of an individual’s gross earnings. To replace an income of \$150,000, for example, \$90,000 per year would be required.

Suppose that your survivors would need \$90,000 in annual income to replace your earnings. If you believe that investment returns of 4 percent are likely, \$2.25 million of capital would be needed to generate \$90,000 a year. If 5-percent returns are projected, you’d need \$1.8 million.

Beyond replacing your lost income and covering major expenses, you may choose to provide for other relatives or leave money for your children’s education. Such goals will increase the amount of capital that would be needed.

After you have determined the amount of capital you’d like to leave behind after your death, you can see how much you’ve already accumulated. If you have a second home that could be sold as well as an investment portfolio, such amounts can be considered in your life-insurance planning.

“As a general rule of thumb, many experts agree that people with families need the protection of six to 10 times annual income. Other financial advisers suggest you have life insurance that is equal to between three and five times your annual gross income,” says Denise S. Friday, vice president of AMA Insurance Agency.

Say your needs total \$3 million and you already have \$500,000 to leave behind. In this situation, you may want to purchase \$2.5 million in life insurance.

In a two-income household, both spouses should have enough life insurance to replace lost earnings. Moreover, a stay-at-home spouse should have substantial life insurance as well, because the death of a homemaker can lead to increased expenses for child care and housekeeping.

Once you've determined how much life insurance you'll need, you can choose the type of policy you prefer. "You can buy term life insurance, which is pure insurance coverage and relatively inexpensive," says Femi Shote, managing director of Asset Harvest Group, a financial-planning and investment advisory firm in McLean, Va. "Alternatively, you can pay higher premiums for permanent insurance, such as universal life, whole life and variable life insurance." Permanent insurance includes an investment account that can build up, over time, and may be a better buy over the long term.

Some physicians may choose to do their investing through a permanent life-insurance policy. There are substantial tax advantages to using this strategy. In addition, some states protect life-insurance policies from any creditors' claims.

Worst-Case Scenarios

For most physicians, their most valuable financial asset is not the balance in their retirement plan or even their home equity. "A physician's most important professional asset is his or her ability to practice medicine," says Ms. Friday. "If you lose that ability, you and your loved ones could see a drastic decline in your lifestyle."

To protect against such a catastrophe, many physicians purchase insurance. "Disability-income insurance helps protect against loss of income by providing the insured with benefits, should he or she become sick or injured and unable to work," says Ms. Friday. Thus, if you are disabled, such a policy would provide an income stream to replace lost earnings.

How much disability insurance should you have? "To make this determination," says Ms. Friday, "add up all the benefits you could be entitled to. Include other income you could count on

from sources like an employer plan and your personal savings, assuming you're willing to use those income sources. If the total is not close to your required income, after taxes, or if the length of time you could receive benefits is limited, you may want to consider private coverage."

Ms. Friday recommends that physicians buy disability-income insurance early in their medical careers, when they're healthy and at less risk of becoming totally disabled. You may be able to buy an amendment to the policy that will enable you to increase your benefit level as your income increases. "AMA Insurance Agency offers a disability-income insurance plan with a future benefit-increase option," she notes.

A policy that pays benefits on the inability to perform your own occupation will cost more than one that would pay only for the inability to perform any occupation. "Nevertheless, most physicians should buy 'own-occ' policies," says Herb Daroff of Baystate Financial Planning. "They may be hard to find in many areas, but they still are available."

Good disability policies can be expensive, especially if they include features such as benefits that will increase with inflation and the opportunity to buy more coverage as your income rises without taking a medical exam.

"These options may be worthwhile," says Ms. Lassus. "To hold down the cost of disability insurance, you might choose a six-month waiting period, which means you'll self-insure against short periods of being out of work. You also may find good values by shopping the Internet." It is possible, therefore, to get adequate coverage without overpaying.

Here are some factors to consider when shopping for disability insurance:

■ **Group vs. individual insurance.** Some physicians will have disability insurance as a fringe benefit, provided by their employer. "Young physicians should start with the disability coverage they're likely to get from their hospital or their medical group," says Ms. Lassus. "If more coverage is necessary, which may well be the case, you can buy individual disability insurance as a supplement."

That is, group disability coverage may have relatively low lim-

its on the size of the benefit and curbs on the time period during which benefits can be paid. “In addition, some group coverage benefits have weaker definitions than individual coverage,” says Herb Daroff, director of estate and business planning for Baystate Financial Planning in Boston. As a result, you may find it difficult to get benefits if the insurer questions your inability to work.

As Mr. Daroff indicates, you also can buy individual coverage. Such policies may be more expensive than group coverage, but the benefits can be more generous. Moreover, if you pay the premiums personally with after-tax dollars, disability benefits will be tax free.

One way to obtain full coverage at a reasonable cost, then, is to combine individual and group coverage. “You might buy the individual coverage first and then layer on group benefits,” says Mr. Daroff. “Individual applications ask about current coverage, but most group applications do not. Then you can look to business overhead coverage to cover the costs of office, staff, etc., which can be added to the amount of personal income replacement disability coverage.”

Ms. Friday notes that group coverage may be available through the AMA as well as state or county medical associations. “Such policies are often less expensive than individual policies and may provide valuable benefits tailored for medical professionals,” she says.

Likelihood of Disability at Various Ages

This table shows the odds of becoming disabled for longer than 90 days before age 65 and the average duration of disability.

Age	Disability Likelihood	Average Duration
30	1 in 3	32 months
40	3 in 10	42 months
50	5 in 22	50 months
60	1 in 10	54 months

Source: 1985 Commissioners' Disability Individual Table A, cited on www.protectyourincome.com.

■ **Definition of disability.** The more likely an insurer is to pay benefits, the higher your premiums will be. Take the classic example of a surgeon who hurts his hand and no longer can operate but is able to teach surgery. With a policy that pays on the inability to perform your own occupation, this surgeon would collect benefits; with a policy that would pay only for the inability to perform any occupation, no benefits would be paid. Thus, an “own-occ” policy is more expensive than an “any-occ” policy.

“Nevertheless,” says Mr. Daroff, “most physicians should buy own-occ policies. They may be hard to find in many areas, but they still are available. A lower-cost, more affordable premium that does not tie the disability to the physician’s actual specialty is not the right course to take.”

■ **Amount of coverage.** Perhaps the simplest way to reduce the cost of buying disability insurance is to reduce your coverage. You may be able to buy a policy that will pay you 60 percent of your earned income; if you make \$15,000 per month, for example, you may be able to buy a disability policy that will pay you as much as \$9,000 (60 percent of \$15,000) per month.

No matter what the cap, though, you may not need to buy the maximum coverage. If you have other sources of income that you could rely upon after being disabled, such as stock dividends or rental income from investment property, you may want to buy less insurance. A policy with an \$8,000 monthly benefit, for example, will be much less expensive than a policy with a \$12,000 benefit. Just be sure that you’re not skimping on coverage you’ll truly need in the event that you cannot work.

■ **Waiting period.** You’ll have to select an “elimination” (waiting) period at the time of purchase. Your choices can be anywhere from the 31st day to 12 months after the onset of total disability. Consider your savings and other financial resources to help you decide when benefit payments should begin. You will pay less in premiums by selecting a longer elimination period.

However, Mr. Daroff says that choosing a 12-month waiting period generally saves little money, versus a 180-day wait. “My preference is for diversification,” he says. “Have some of your insurance set to pay after 30 days, some after 60 days, and some after 90 or 180 days. This will help hold down premium costs yet still provide some income while you wait for all the coverage to

take effect.”

What’s more, as you grow older and accumulate more wealth, it may be advisable to increase your self-insurance. Your coverage with a 30-day waiting period might be extended to 60 or 90

Disability policies come with varying “elimination” (waiting) periods. Your choices can be anywhere from the 31st day to 12 months after the onset of total disability. Consider your savings and other financial resources to help you decide when benefit payments should begin. You will pay less in premiums by selecting a longer elimination period.

days, for example. “Insurers don’t mind being asked to take less risk,” says Mr. Daroff, “which will be the case if you extend the elimination period. You probably can make such changes and reduce your premiums without having to take a new physical exam.”

■ **Length of coverage.** Once your disability benefits begin, how long should they last? You can buy a policy that provides lifetime benefits, but such cover-

age will be more expensive than buying a policy that pays benefits only to age 65.

“The rationale for buying coverage to age 65,” says Mr. Daroff, “is the idea that you probably would stop working by then and live on your retirement benefits. However, if you are disabled while you are young, you might not have had a chance to build up a retirement fund. Therefore, I think you probably should start out with a disability policy that will pay lifetime benefits.” As you grow older and accumulate wealth, you may decide to cut your insurance premiums by switching to a policy that pays benefits to age 65. Again, such a change can probably be made without having to pass a new physical exam.

■ **Policy riders.** You can choose among various extra features when you buy disability insurance. Each one will have a cost, though, which you must weigh against the proposed benefit. For example, you may select an option that will allow you to buy more coverage in the future, regardless of your health.

Mr. Daroff advises physicians to be sure their disability coverage includes a benefit in case of partial disability. “You also should have a residual income benefit that pays you a portion of your maximum benefit, based on the percentage of income that

is lost due to disability.” If your disability insurance calls for you to receive \$10,000 a month, for example, and your income drops by 60 percent due to a disability-related work limitation, a residual income benefit might pay you 60 percent of the maximum, or \$6,000 per month.

What about a cost-of-living adjustment? Some insurers offer you a fairly straightforward deal. You can pay a slightly higher premium each year, in line with inflation, and your benefit will go up in sync. After some time period (perhaps five years), you will have to show that you make enough money to merit the higher benefit.

Another option is a cost-of-living rider that will increase your benefits annually after you’ve been disabled for a full year. This

Claims-Handling Problems Top Consumer Complaint

The top three reasons that prompted consumers to file formal complaints against their insurance companies in 2005 were delays, denials and unsatisfactory settlement offers, according to data collected by the National Association of Insurance Commissioners (NAIC), based in Kansas City, Mo. Following these claims-handling issues, consumers complained most about policy cancellations and premiums/insurance rating issues.

“Data on complaints can be extremely valuable to consumers who are in the midst of researching different insurance options,” says Catherine J. Weatherford, NAIC executive vice president and CEO. “Consumers can easily search this data right on our Website or call their state insurance department.”

Aggregate data compiled by NAIC’s Complaint Database System can be accessed by clicking on the Consumer Information Source link on the NAIC home page at www.naic.org. By accessing this link, consumers can obtain company-specific complaint ratios (the ratio of the company’s market share of complaints compared with the company’s market share of premiums for a specific policy type), as well as aggregate counts of complaints by state and by type of coverage for specific companies.

In 2005, auto liability was the type of coverage that caused the most complaints, followed by complaints related to health insurance, auto physical damage, health maintenance organizations and disability income insurance.

feature can be very expensive, so take a hard look at the numbers to see if what you'll get is truly worth the extra cost.

Physicians should be prepared for difficulties when they seek disability insurance. "Some professionals—doctors, attorneys and others—were making claims in far greater numbers than expected," says Mr. Daroff. "As a result, the definition of disability may be along the lines of 'inability to perform all of the duties of your own occupation,' which is a significant hurdle to overcome, in order to receive benefits."

What's more, according to Mr. Daroff, coverage amounts are usually limited to 60 percent of income so that disability won't be particularly enticing. "Assuming a 40-percent combined Federal and state income tax," he says, "the insurance companies don't want professionals to stay at home and receive more than when they were working. In addition, the total amount of coverage is now maxed out at about \$10,000 to \$12,000 a month."

For a physicians earning \$200,000 a year, \$10,000 a month in disability benefits is adequate but that might not be true for someone who is used to making \$300,000 a year. Even at \$12,000 a month, or \$144,000 a year, that would be less than 50 percent of prior earnings. An experienced insurance professional may be able to help you maximize benefits while keeping costs under control.

For these reasons, Ms. Friday advises physicians to hold onto disability policies bought years ago. "If you purchased a disability policy several years ago, it may be better than any new plan on the market today," she says. "And remember that you will need to satisfy the underwriting criteria again if you purchase a new policy."

Healthy Choices

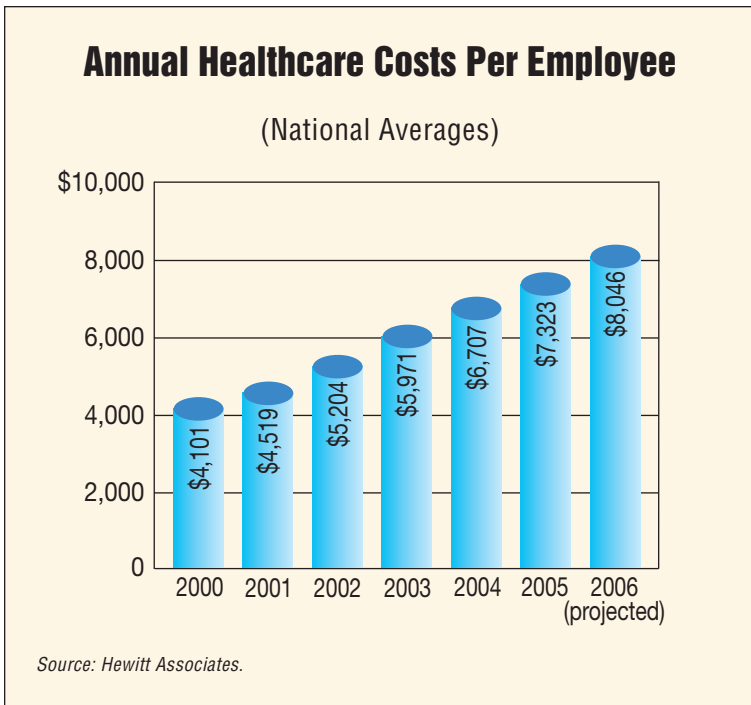
Another risk that can strain your finances is the chance that a severe illness or injury will strike you or a member of your immediate family. Physicians know well how costs can quickly rise to five and even six figures.

If you're an employee, it's likely that you have health coverage through your employer's plan. However, if you run your own practice or if you're a principal in a medical group, it's up to you to choose the health plan. Many employers opt for some form of

managed care; again, this concept will be familiar to physicians. Widely used types of health insurance include these:

■ **Indemnity Insurance or Fee-for-Service Plans:** “This is the traditional insurance coverage you’re probably familiar with,” says Christine Ambrose, a vice president at First Horizon MSaver, a Chicago-based company with which AMA Insurance Agency has an alliance to provide health savings accounts (HSA) and HSA-qualified high-deductible health insurance plans. “It pays for most of your health problems, but doesn’t usually pay for preventive care like well-child visits and physical exams.”

Indemnity insurance doesn’t cover the total cost. Coverage is usually limited to a percentage of the billed amount. Under an indemnity plan, you can see any doctor or hospital you want, but the monthly premium is usually higher than other types of health plans. According to Hewitt Associates, a benefits-consulting firm based in Lincolnshire, Ill., the average 2006 cost for indemnity



coverage per employee in major companies is \$8,091.

■ **Health Maintenance Organizations (HMOs):** An HMO covers most of your healthcare needs, including checkups, immunizations and hospitalization, for a small copayment that typically is between \$5 and \$40. “With an HMO,” says Ms. Ambrose, “there are no claim forms, but you can only use doctors and hospitals affiliated with your plan. A list of affiliated physicians is provided by the HMO.”

According to Hewitt’s data, HMO premiums for major employers in 2006 average \$7,752 per employee.

■ **Preferred Provider Organizations (PPOs):** A PPO covers many of your healthcare needs for a small per-visit fee if you choose from the list of preferred providers. “You can choose to see a doctor who’s not on the list,” says Ms. Ambrose, “but you’ll foot a greater part of the bill and may have to pay a deductible. Some PPOs do require claim forms.”

The average annual premium for PPOs in 2006 is \$8,075, Hewitt says.

■ **Point-of-Service (POS) Plan:** A POS plan gives you two different choices each time you use healthcare services. You can use the plan just like an HMO, and you will be responsible for a nominal co-payment. In this mode, you’ll see physicians who are on the list and obtain authorizations for certain services, including referrals to specialists.

Alternatively, you can treat a POS plan just like an indemnity plan by choosing care from either a participating provider or a non-participating provider, without coordinating care through your primary-care physician or health plan. When using your health plan like indemnity insurance, you are generally responsible for a deductible and a percentage of your bill.

Hewitt says that a POS plan costs a major company an average premium of \$8,673 per person in 2006.

In 2004, a change in Federal law created yet another alternative: health savings accounts. “An HSA is a savings product,” says Ms. Ambrose, “one that offers a different way for consumers to pay for their healthcare. HSAs enable you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis.”

An HSA is based on the idea that consumers of healthcare (the

patients) assume a certain amount of responsibility for making healthcare decisions. “To understand HSAs,” says Karin Grablin, a financial planner with Dictor & Martin in Sarasota, Fla., “you should think of them as a combination of high-deductible pure insurance and a tax-deductible savings account that includes some restrictions.”

If you want to have an HSA, you first must purchase a health

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insurance policy with a deductible of at least \$1,050 for individual coverage, or \$2,100 for families. There also must be a provision that limits your out-of-pocket costs to no more than \$5,200 in a given year, or \$10,500 for family coverage. “This includes co-payments as well as your deductible,” says Ms. Grablin. (All of these numbers are for 2006; they’re indexed for inflation.)

This type of coverage can provide catastrophic health insurance coverage. You pay for minor scrapes out of your own pocket, but you won’t deplete your savings by large medical bills. What’s more, high-deductible insurance is less expensive than low-deductible coverage. Switching from, say, a \$1,000 deductible to a \$5,000 deductible can save you thousands of dollars each year.

“You must be covered by a high-deductible health plan (HDHP) to be able to take advantage of HSAs,” says Ms. Ambrose. “An HDHP generally costs less than traditional healthcare coverage costs, so the money that you save on insurance can therefore be put into the Health Savings Account.” You can contribute as an individual or, as an employer, your practice may contribute to employees’ HSAs.

HSA contributions can be as great as the policy’s deductible. Thus, with a \$2,100 deductible on your health insurance policy, you can put as much as \$2,100 per year into your HSA. For 2006, the maximum HSA contributions are \$2,700 for individual coverage, \$5,450 for families. In addition, you can make

“catch-up” contributions up to \$700 in 2006, once you reach age 55. That number will grow by \$100 each year, through 2009. You have until April 15 to make your final contributions for the previous year.

If contributions are made by an employer, the amount is deductible for the medical practice and not included in an employee’s income. Contributions by individuals are above-the-line deductions from adjusted gross income (AGI). Thus, they’re deductible even for those who don’t take itemized deductions. Such above-the-line deductions reduce your AGI, which can save you taxes elsewhere on your return.

Once contributions are made to an HSA, the money can be invested in virtually any manner. Just as is the case with an individual retirement account, any investment earnings inside an HSA are untaxed. At present, most HSAs are invested in interest-bearing accounts, where yields are similar to those of bank CDs. The list of options is expanding, though. If you’re willing to bear some risk, in search of potentially greater returns, you can put your HSA money into mutual funds.

According to Ms. Ambrose, HSA funds can pay for any “qualified medical expense,” even if the expense is not covered by your HDHP. “For example, most health insurance does not cover the cost of over-the-counter medicines, but HSAs can,” she says. “If the money from the HSA is used for qualified medical expenses, then the money spent is tax-free.” Thus, HSAs allow you to pay medical bills with pre-tax rather than after-tax dollars. As another advantage, there are no restrictions on your choice of doctors or hospitals.

If you don’t use up the money in your HSA one year, the surplus can remain in your HSA, year after year, while any investment earnings will continue to be untaxed. Eventually, you can use the money in your HSA for various healthcare outlays.

In order to have an HSA, you must be under 65 years old. Although qualified withdrawals (for medical expenses) are tax-free, withdrawals for unqualified expenses will be taxed; before age 65, unqualified withdrawals also are subject to a 10-percent penalty. As Ms. Ambrose points out, you effectively can use your HSA to supplement your retirement savings.

An HSA may or may not be the answer to your healthcare

needs. Nevertheless, it is one option to explore, an option that may become increasingly attractive as premiums keep rising for traditional modes of health insurance.

Insuring Your Home

Once you've insured your life and your health, further coverage should begin at home. That is, you need to protect your home and your cars and cover the liabilities they may generate.

Homeowners insurance may be especially important today, after years of soaring home prices. You should be sure that you have a "replacement-cost" policy rather than an "actual-cash-value" policy. With the latter, in case of damage you receive the property's value, minus depreciation. Typically, that amount will be far less than it would cost you to replace or rebuild whatever is damaged.

As you'd expect, though, a replacement-cost policy will cost much more than an actual-cash-value policy. How can you trim your costs yet still maintain proper coverage? "For homeowners insurance, a higher deductible may be better than a low one," says Mark Kaizerman, a financial planner in Natick, Mass. "You'll pay lower premiums if you don't expect your insurance to pay you back for every dollar you spend."

Today most insurance companies recommend a deductible of at least \$500. If you raise your deductible to \$1,000, you may cut your premiums by up to 25 percent. With a higher deductible you'll likely save money in the long run, even if you pay for the occasional broken window out of pocket, yet you'll still have insurance against major disasters.

Another way to cut costs is to avoid over-insuring. Remember, the land under your house isn't at risk from theft, windstorm, fire, etc. Therefore, you shouldn't include its value in deciding how much homeowners insurance to buy. If you do, you will pay a higher premium than necessary.

Making your home more secure also can lead to lower premiums. "You need smoke detectors," says Erika Safran, a financial planner in New York. "After you renovate or remodel, be sure your smoke detectors are re-connected."

Your insurance agent probably will be able to advise you on other steps you can take to make your home more resistant to

natural disasters, and thus cut your premiums. Possible actions include adding storm shutters, reinforcing your roof and buying stronger roofing materials. In addition, modernizing your heating, plumbing and electrical systems can reduce the risk of fire and water damage.

Be wary of other risks, too. Mr. Kaizerman suggests going beyond basic coverage and adding earthquake insurance, which is not covered in most homeowners policies. In many areas of the country, earthquake insurance can be purchased through a relatively inexpensive rider to your homeowners policy. You may need to buy separate flood insurance, too, depending on where you live.

In addition to insuring the house itself, your homeowners policy also will cover its contents. Ms. Safran says that a careful review of your homeowners policy may show that you are paying too much and still not getting the coverage you need for your possessions.

Beyond insuring the value of your dwelling and its contents, homeowners insurance also should include liability coverage. You'll probably want to maximize this coverage because doctors are widely viewed as having "deep pockets" and are likely to wind up on the wrong end of a lawsuit. Often, this means paying for \$300,000 worth of liability coverage.

"One of our clients was paying twice as much as the norm for a policy," Ms. Safran recalls. "When we checked, we found that she was paying to insure \$150,000 worth of property inside her home. She thought that she was insuring certain valuables but those items could only be covered with specific riders, which she didn't have." The answer, according to Ms. Safran, was to cut back on basic property coverage and put the money saved into the necessary riders.

Thus, you should review the limits in your policy and the value of your possessions at least once a year. Your policy should cover any major purchases, but don't spend money for coverage you don't need. If your five-year-old home-entertainment system is no longer worth the \$5,000 you paid for it, reduce or cancel your "floater" (extra insurance coverage for items whose full value is not covered by standard homeowners policies) and reduce your premiums.

Beyond insuring the value of your dwelling and its contents, homeowners insurance also should include liability coverage. If your dog bites someone or a family member damages another person's property by accident, this coverage obligates your insurance company to defend you if you're sued, and to pay any damages, up to your policy limits. You'll probably want to maximize this liability coverage because doctors are widely viewed as having "deep pockets" and are likely to wind up on the wrong end of a lawsuit. Often, this means paying for \$300,000 worth of liability coverage.

Drive Hard For Good Coverage

Similarly, you probably should maximize the liability coverage when you buy auto insurance. This liability insurance, which protects you if you cause damages or injuries in an auto accident, is actually made up of two different policies. Bodily injury insurance protects you if you cause personal injury to others while property damage insurance protects you if you cause damage to any physical property.

Auto liability coverage generally is expressed by three numbers, such as 50/100/25. Such numbers mean that your coverage goes up to \$50,000 for bodily injury caused to another person; up to \$100,000 for bodily injuries caused to everyone in one incident, and up to \$25,000 for property damage.

State laws will require a minimum level of auto liability insurance; but, as a physician, you're better off paying more for more coverage. You might want to pay for liability coverage of 150/325/55, for example. Other types of liability coverage (medical payments, uninsured motorist) can provide extra protection.

In addition, physicians may have special concerns in this area. "There are certain things doctors need to look for in auto insurance," says Sidney Blum, director of financial advisory services at Leonetti & Associates in Buffalo Grove, Ill. "For example, if the doctor is driving a company car—one that's owned or leased by the medical practice—is there coverage in case the doctor's teenaged children are driving and get into an accident? Either the company policy or the family policy should cover such situations, to make sure there are no gaps."

Beyond liability insurance, you'll probably need collision and

comprehensive coverage for your cars. Collision coverage insures you against damage to your vehicle in an accident while comprehensive insures your car against other physical damage from fire, theft, flood and vandalism.

Often there is a deductible, ranging from \$100 to \$1,000, and the same advice applies here as to homeowners insurance. By taking a higher deductible, you'll lower your premium while still protecting against major damages. Indeed, if you have an old car with little value, you could perhaps drop collision and comprehensive insurance on that car altogether.

Certainly, you should protect yourself against major damage to a \$25,000 or \$35,000 car, just as you should protect a house that might be valued in the hundreds of thousands of dollars. Nevertheless, your major risk is on the liability side: if an injury

Tips on Buying Car Insurance

Ron Moore, manager of product development at MetLife Auto & Home in Warwick, R.I., offers the following tips on getting the best deal in car insurance:

- A new car depreciates up to 30 percent during the first year, and many insurers will take a deduction for depreciation during this time. That means that a person could pay \$20,000 for a vehicle, but only receive \$14,000 if it is damaged beyond repair. Determine in advance the level of protection actually afforded under the terms of the policy. For example, if your new car is totaled, will your auto insurer replace the vehicle with a new one, or take that deduction for depreciation?
- Cars that are expensive to repair or those with historically higher theft rates carry higher insurance costs. Specialty vehicles and sports cars typically cost more to insure. Similarly, vehicles that are considered "crashworthy" usually cost less to insure. Before making your final decision on a car model, log on to www.highwaysafety.org to rate your prospective purchase.
- You may qualify for insurance discounts if your new car comes equipped with such features as anti-theft/alarm devices or anti-lock brakes. Insurers also offer discounts for a number of factors: good driving records, certain safe driving courses, low number of drivers using the vehicle, low annual mileage and whether the vehicle is kept in a garage overnight or parked on the street.

occurs in your home or as a result of an auto accident, you could lose a judgment that runs into millions of dollars.

In that case, even carrying \$300,000 or \$325,000 worth of liability insurance would not be sufficient, so you also need an excess-liability policy, known as an umbrella. “I always recommend umbrella insurance policies to my clients,” says Ms. Safran. “For physicians who carry professional-liability insurance,

Auto liability coverage generally is expressed by three numbers, such as 50/100/25. Such numbers mean that your coverage goes up to \$50,000 for bodily injury caused to another person; up to \$100,000 for bodily injuries caused to everyone in one incident, and up to \$25,000 for property damage. You may want to increase those levels to 150/325/55.

an extra \$1 million in excess-liability coverage should be sufficient.”

An umbrella provides coverage when your auto or home liability coverage is inadequate. If someone who trips on the front stairs of your home wins a \$750,000 award, for example, and your homeowner’s policy has a \$300,000 limit on liability claims, the umbrella policy would pay the remaining \$450,000.

This type of policy also should protect you against claims for libel, slander, false arrest, wrongful entry and invasion of privacy. Ideally your umbrella policy will provide coverage if you face liability arising from your service on the board of a civic, charitable or religious organization. Perhaps most important, an umbrella policy should pay for legal fees and defense costs; even if a lawsuit is frivolous, you still face the expense of defending yourself.

“You need a certain amount of underlying insurance to get an excess-liability policy,” says Mr. Blum. “Once that underlying coverage is in place, it’s generally inexpensive to add an umbrella.” Typically, if you buy all three policies—home, auto, umbrella—from one insurer, you’ll qualify for lower premiums and assure yourself seamless coverage.

Protecting Your Practice

In addition to all the types of insurance described above, doctors will need still more coverage: malpractice insurance, for

example. Even malpractice insurance, though, won't necessarily provide enough protection for your financial plan.

Matthew Shaklee, vice president at Medical Risk Management Insurance Services, an agency in Los Angeles, tells of a doctor who paid a house call on a young patient and told the parents that a hospital visit was advisable. The parents never went to the hospital, and the child died. Subsequently this doctor was subjected to a long inquiry before the state's medical review board.

Despite the fact that the doctor had never even been named in a medical malpractice claim, the medical board tried to revoke his license to practice. He prevailed, but his case dragged on for so long that he ran up \$130,000 in legal fees. Those fees were not covered by his malpractice insurance.

According to Mr. Shaklee, such experiences are not that unusual these days. "No doctor should appear before a board without being represented by a competent attorney," he says. However, the insurance carried by some medical offices limits legal defense costs to \$25,000, which may not be enough. Extra coverage may help you handle such legal bills.

As this example illustrates, a sole practitioner or medical group has double exposure when it comes to running an office. On the one hand are those risks common to any small business: handling claims from visitors' accidents, disgruntled employees, etc. On the other hand are those risks unique to medical offices.

To begin with, you probably should have some form of a package, known as a business owners policy, that has been adapted for a medical practice. This policy will cover standard perils, including fire, debris removal, employee dishonesty and theft, although certain exclusions usually apply, such as damage caused by floods and earthquakes.

Such insurance will pay to repair or replace your office (and the building, if applicable) and any equipment, furniture or fixtures that you own, up to stated limits. Make sure that your policy covers your computers, telephone systems, electrical, heating and air conditioning systems and all of your medical equipment. A basic policy probably should include coverage for business income interruption, as well.

Keep in mind that there are two separate types of coverage for lost revenues. "There's business overhead expense, or BOE cov-

erage,” says Mr. Shaklee. “If you are unable to work, this policy will pay your office expenses, keeping your practice intact until you can return. This coverage generally should be obtained through the agent who provides your life and disability insurance.”

BOE insurance, though, is not the same as business income or

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business interruption insurance, which will pay you if you're fit but your practice runs into downtime. Business interruption insurance not only compensates your practice for lost income and the expenses incurred if you are forced to vacate your premises due to disaster-related damage, it also covers operating expenses, such as payroll, which continue even when business activities have ceased.

Your coverage probably should extend to interruptions caused by equipment breakdowns. “Some doctors rely on certain equipment, such as monitors for well-bodied heart scans, for income,” says Mr. Shaklee. “If those machines break down, not only is there a cost for repair or replacement, there also is lost revenue. Business income insurance can make up the shortfall.” Typically this latter coverage can be obtained as part of your basic business insurance, probably from a different agent than the one providing life and disability insurance.

Long-term Care Coverage

There is yet one more risk that should be covered in a financial plan. As you get older you may grow frail, dependent upon others for constant care. If you need to go into an institution or hire professional home-care aides, the cost may be enormous, wiping out your life's savings.

“A nursing home will cost thousands of dollars per month,” says Edward Fulbright, a CPA and financial planner in Durham, N.C. “Where is that money going to come from? You need to look at all of your resources, including Social Security and your

retirement plan, and think about making up any shortfall with long-term care insurance.”

Why is long-term care (LTC) insurance necessary? “Unfortunately, when it comes to long-term care, the government pays very little until you have spent down your assets and income to a minimal level,” says Rick Leonard, president of Long-Term Care Resources, based in Bridgeville, Pa., a company with which AMA Insurance Agency has an alliance to provide long-term care insurance for physicians. “Medicare, which is the major medical insurance for those aged 65 and older, pays zero LTC benefits after 100 days. Medicare supplement and retiree health insurance plans are designed to supplement the gaps in Medicare and pay very minimal benefits.”

The one government program that will pay for long-term care is Medicaid, according to Mr. Leonard. “However,” he says, “Medicaid is a welfare program that requires a person to spend down to the state minimum asset and income level, which may be as low as \$2,000.”

Thus, if you want to be able to pay LTC bills without impoverishing yourself, you may want to buy LTC insurance. Moreover, your aging parent or parents may need years of expensive care, effectively moving money you might have inherited into the pockets of a nursing-home operator. To prevent such an occurrence, you (and perhaps your siblings) may decide to help provide long-term care insurance for your parents.

Whether or not you’re helping your parents pay for LTC coverage, it’s probably not too soon to shop for this insurance yourself. Mr. Fulbright’s wife, Genevia Gee Fulbright, a CPA and business adviser, says that she has an LTC policy already, even though she’s only 37. “I’ve had one since I was 30. I did some volunteer work in a long-term care facility so I saw the need for this coverage. I also saw how much it costs: one of our elderly clients is paying \$6,500 per year for coverage. Because I bought a policy when I was so young, I’m paying under \$200 per year.”

Besides buying when you’re relatively young, what else should you consider when shopping for LTC insurance?

■ **Insurance company quality.** Mr. Fulbright says that you should buy LTC insurance from an established company in excellent financial condition.

■ **Plan design.** “Most LTC insurance policies provide either a cash benefit, like disability insurance, or they provide reimbursement of expenses based on a monthly or daily benefit you select,” says Mr. Leonard. A few policies on the market combine the two. The cash payment plans are the more expensive of the two but provide greater flexibility.”

Whether you’re buying a cash or reimbursement plan, the amount of coverage will be determined by selecting two basic options:

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1. How much of a benefit you choose—for example, \$100 per day or \$3,000 per month.

2. How long a benefit period you choose—for example, two years, three years or lifetime/unlimited.

“Most policies combine the benefit you select and the benefit period to create a pool of dol-

lars to cover LTC expenses,” says Mr. Leonard. “For example, \$100 per day times a three-year benefit period (1095 days) creates a pool of \$109,500.”

When choosing these options, you should know the cost of care in your area and the amount of coverage you desire. Cost of care in New York City may require \$325 per day or more, according to Mr. Leonard, while care may cost only \$135 per day in Alabama.

In terms of benefit duration, lifetime/unlimited is the maximum coverage available. These plans will pay as long as a person is disabled. While lifetime coverage provides the greatest peace of mind, it is expensive in comparison with policies that

provide three or four years of benefits. The average nursing home stay is 2.5 years, so the

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most common benefit periods selected are three- or four-year plans.

■ **Inflation protection.** “Your policy should have an increasing benefit,” says Mr. Fulbright. “You might buy a policy that pays \$100 per day but, by the time you need care, which might be 10 years from now or longer, that \$100 won’t cover the costs. A good policy will increase that benefit each year, so it might pay \$150 or \$200 per day when you need care.”

■ **Full coverage.** Home care now can be as expensive as care in a nursing facility, so your LTC policy should pay benefits in either situation.

■ **Tax angles.** “If your practice is set up as a regular C corporation, the corporation can provide LTC insurance for yourself and for your spouse, too,” says Marilee Driscoll, a consultant in Plymouth, Mass., who trains insurance agents, accountants and attorneys on the fine points of this coverage. “The premiums will be deductible. What’s more, you don’t have to provide this coverage for your other employees.”

■ **Combination plans.** If you’re not yet ready to buy LTC insurance for yourself, there may still be steps you can take. Many physicians carry disability insurance, which will provide income in case of injury or illness; some disability policies will automatically become LTC policies at a certain point, perhaps after retirement. If LTC coverage is obtained via a disability policy, when you are relatively young and healthy, you may have two-fold protection against truly worst-case scenarios.

Besides your disability insurance policy, your life insurance policy may provide some LTC protection. Increasingly life insurers are offering LTC riders. With such a rider, if long-term care is needed, a portion of the death benefit can be paid out each month. Yet another option is obtaining LTC coverage as an extra feature when you invest in a variable annuity.

No matter where you obtain your LTC coverage, make sure that you can receive benefits if care is delivered at home or in an assisted-living facility as well as in a nursing home. You should have a vehicle that will go wherever care is needed.