



What Happened When Dentist Dropped Drill: John Wasik (Update1)

By John F. Wasik

Aug. 13 (Bloomberg) -- Barry Kaplan had a thriving dental practice in Atlanta when he started experiencing debilitating pain and began to drop instruments when he was with patients.

After a doctor confirmed that he had ruptured disks in his neck, he went through treatments and surgery. When that failed to fully restore his motor skills, ``it was time to hang up the mirror and drill."

``Not only was I making a nice living, I had just paid off my student loans and was about to pay off the practice note," says Kaplan, who went on disability at age 45. ``This meant I was just about to enter the most profitable part of my career. My take-home pay was just about to jump once the loan was paid off, but it was not meant to be."

Fortunately, Kaplan, now 52, was financially prepared and had several disability insurance policies in force.

You don't have to be a medical professional to realize that you need to insure for the event of disability. Some 43 percent of Americans older than 40 will experience some health emergency that will take them out of the workforce for 90 days or more, according to the Insurance Information Institute, an industry research organization.

Although most employers may provide disability insurance, coverage varies and may not allow you to make retirement fund contributions.

Kinds of Coverage

Like most forms of insurance, disability policies can get complicated and expensive.

The typical employer-provided policy covers as much as 60 percent of salary to age 65. If you buy an individual plan, it could replace as much as 70 percent of annual income.

Only a handful of policies will provide enough for you to replace retirement-plan savings. So-called retirement protection programs will also cover 401(k) contributions. If you're facing a long-term disability of several years, this will help you bolster your finances after age 65.

In a worst-case scenario -- in which you can't obtain any gainful employment due to an injury or condition for a year or more -- Social Security will provide modest disability benefits, though it's extremely difficult to qualify for them.

The key questions to ask your employer are: Do you have disability coverage and how much does it cover?

The most common policies provide income for short-term disability for as long as six months, and are typically provided by employers. Long-term disability plans may kick in after that period and last until age 65 or provide lifetime benefits.

Switching jobs? You will also need to ask your new employer what kind of coverage it offers. If the company doesn't have any, you will need to buy a policy on your own.

Buying Policies

Insurance is basically priced according to the level of coverage requested and deductibles, also called waiting or elimination periods. In disability-policy parlance, the longer you wait to receive benefits by the insurer, the lower the premium and vice versa.

For example, if you choose a waiting period of a few weeks, you would pay much more than if you waited a few months. How long you select depends on your personal savings. If you can afford to wait 90 days, make sure you have the resources to cover basic bills for that period.

These policies can get extremely confusing depending upon the type of plan you choose. Some of the most expensive policies are "own occupation," meaning that they will pay benefits if you can't return to your original line of work. There are several variations on this type of policy, so understand the fine print before you pay the first premium.

Benefit Limits

More restrictive plans pay if you can't work in any occupation. Many insurers will limit benefits to a few years or reduce coverage if you can take part-time work.

It's also useful to have a cost-of-living adjustment built into your policy so that you keep pace with inflation once you receive benefits.

In addition to wading through some murky policy language, you will need to know about the taxation of benefits.

The rules are simple: If you are receiving coverage through an employer as a tax-free fringe benefit, your income from a policy will be taxable. Paying for the policy with after-tax dollars will make the benefits tax-free. Ask your employer if you can finance your coverage this way.

For those who are self-employed, it works the same way, although individual policies tend to be twice as expensive as group plans. And women are charged higher premiums than men. While women generally enjoy lower life-insurance rates because they live longer than men, industry research shows they may be more likely to develop a disability.

'Horror Stories'

Shopping on your own requires much more due diligence. Look for the highest-rated company that is likely to pay claims. Insurers denying payments were a huge problem in the 1990s.

"I'd read horror stories of claims being denied and I feared the worst," says Kaplan. "The funny thing is that my carriers never gave me a minute of trouble."

When pricing disability plans, keep in mind that no policy will cover your entire salary, bonus or commissions. And if you are a regular retirement saver, you won't be able to sock away any additional money if you are disabled.

John Ryan, an insurance consultant specializing in disability plans based in Greenwood Village, Colorado, says "anyone who is putting away at least \$1,000 a month into a retirement plan should consider additional coverage."

Someone aged 50 earning \$150,000 a year will pay about \$2,550 annually for a policy that funds retirement contributions of \$45,000 per year, he estimates.

Should you decide you need to buy a policy, don't approach an agent blindly. Approach a fee-only, certified financial planner or broker who represents several insurers to see what's right for you.

For Kaplan, his disability not only enriched his knowledge of insurance, he was able to take up another profession: financial planning. He can more than apply what he has learned.

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