



# Insurance: A Dynamic Process

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**ABSTRACT** From graduation to retirement, insurance plays an important part of a dentist’s professional and personal life. The intent of this article is to offer an overview of the needs and solutions for obtaining coverage. This article is not advice for a practitioner’s personal choice of insurance purchases but is only a discussion. The framework of the discussion will be the four stages of dentistry: beginning a career, starting a practice, enriching a career, and preparing for retirement.

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**B**abylonian King Hammurabi inaugurated the concept of insurance policies in ancient times. The Hammurabi Code, named after the king was “basic insurance ... the debtor did not have to pay back his loans if some personal catastrophe made it impossible (disability, death, flooding, etc.)”<sup>1</sup>

Then during the Middle Ages, guilds held large reserves of monies that could be used as a type of insurance fund. For example, if a guild member’s business burned, as often happened in those times, the insurance guild would reconstruct the business from the monies in the reserves. In the case of robbery, the guild “would cover his obligations until money started to flow in again.”<sup>1</sup>

In the late 1600s, Blaise Pascal and Pierre de Fermat used probabilities and risk scenarios to calculate insurance rates. These processes later “formalized the practice of underwriting and made insurance more affordable.” After the great fire of London, groups that had been providing marine insurance to the ships colonizing the New World started to offer fire insurance. “By 1693, the first mortality table was created using Pascal’s triangle and life insurance soon followed.”<sup>1</sup>

### Incidence and Risk

Statistics show that accidents and unpredictable events occur anywhere, at anytime, to anyone. According to the National Safety Council, a disabling injury occurs every two seconds in the

United States.<sup>2</sup> On average, 53 percent of men will have been disabled for two months by the time they reach the age of 65.<sup>3</sup> One review reports that more than 90 percent of disability claims are due to illness.<sup>4</sup> At any stage of a dentist's career, he or she is at risk for a loss.

### Risk Management

Risk management is the practice of appraising and controlling risk. This entails transferring some or all of the risk to another party. The concept of risk revolves around uncertainty. However, many people weigh this risk with the obligation to protect their assets to avoid financial hardship for themselves and their dependents. Insurance management is not a one-step endeavor. Before or after life's major events, (marriage, home purchase, a significant increase in income, birth of a child, practice purchase, etc.) one may wish to evaluate their current coverage to assess if any alterations are needed. Different plans and different amounts of insurance may be appropriate at certain stages in life. Adequate management of an insurance portfolio is a dynamic lifelong process.

This article does not offer insurance advice. The article provides information about some of the insurance options and choices available to a practitioner. The options available depend on one's age, health history, lifestyle/hobbies, and other factors. A team, which may include a financial planner, an accountant, and an attorney, can provide specific insurance guidance (**box**).

As a dentist proceeds through the four stages of practice, insurance needs develop and change. Examples of such possible needs and potential ways to manage these evolving circumstances are presented according to the four stages. However, it is at the dentist's discretion to purchase and alter policies when he or she sees fit.<sup>5-7</sup>

### BOX

#### Types of Insurance<sup>5-7</sup>

1. **Personal disability:** Provides a dentist financial compensation in the event of partial or total disability, injury, or illness. The proceeds may be used to cover personal expenses such as rent or mortgage payment, food, school loans, car payments, etc.
2. **Office overhead:** Provides coverage for certain expenses in the office (rent/lease, staff salaries, equipment leases, etc.) should one become disabled.
3. **Life:** Provides a death benefit to anyone with an economic insurable interest. There are two types: term and permanent (also known as whole life). Combinations of the two are also available. The coverage may cover debts and taxes, and helps preserve the insured's estate.
4. **Health insurance:** Provides coverage for expenses related to medical care.
5. **Long-term care:** Provides care if a chronic illness, injury, or cognitive impairment occurs preventing the dentist from performing daily activities (including eating, bathing, and dressing) without supervision. This insurance pays for assisted-living facilities and in-home care.
6. **Professional liability or malpractice:** Protects the dentist from malpractice legal claims. This is a required insurance.

*Please note this box and article do not include all possible types of insurance policies.*

## Stage 1: Beginning a Career

### First Five Years

During these years, a dentist's need for insurance may be minimal. He or she may be associating with an established dentist and developing management skills. Part of this process will be to properly assess insurance needs to protect assets attained by this early stage, in particular the ability to practice dentistry. Student loan repayment may weigh heavily on the new practitioner and may be considered when designing insurance protection at this stage.

#### PERSONAL DISABILITY INSURANCE

Personal disability insurance coverage is one method of protection from unexpected illness or injury. While personal expenses may be lower during this period of a career, other responsibilities, such as student loan repayments, will still need to be paid if the dentist becomes disabled. At this stage, a dentist may be at economic risk. Income may be low while debt may be high. This is also a stage when dentists may have an easier time getting insurance coverage because they are young and healthy.

Basic disability plans are one choice of protection. Most have a specified waiting or elimination period, often between 60 and 180 days, after filing a claim and before garnering benefits for partial or total disability. Many plans pay benefits until the age of 65. Plans have broad terms detailing the definition of a disability.

Comprehensive disability plans are another choice (discussed in greater detail later). Some of these plans offer the "own occupation" clause, which allows a dentist to earn income in another profession while receiving 100 percent of his or her disability payments.

#### LIFE INSURANCE

In stage 1, life insurance is often purchased to cover student debts and to protect a dentist's family if he or she should die. Term insurance is generally the least expensive for stage 1 dentists as premiums are based on age and usually remain level for a specific period of time, generally 10, 20, or 30 years. Level term policies are also available. This allows the insured to lock in the premium

amount at anytime.<sup>1</sup> Coverage does not increase over time in term policies.

Some policies will provide the option to exchange a term life insurance policy for a permanent life policy for up to the full amount of the term policy at a later time. Once the contract of a term life policy ends, the dentist no longer has coverage. Whole life insurance policies may last until approximately 100 years. The end age varies by contract. If the insured outlives their policy, then they receive the death benefit. Thus, a whole life insurance policy contract will ultimately be paid if it is kept until the end of the insured's life or the end of the contract term.

#### PROFESSIONAL LIABILITY INSURANCE

The Dental Practice Act of most states holds dentists legally liable for their actions. This policy protects the dentist's professional and personal assets in case of a legal claim. Payment options vary. Some policies offer interest-free options and discounts if risk management education is completed. Premium rates may vary according to specialty and anesthetic modality. An add-on option to the policy called "employment practices liability insurance" can cover costs sustained in the case of a wrongful employment claim.

Umbrella liability insurance is often linked to auto and home liability coverage. The policy may offer extra protection for major liability losses such as major car accidents, property damage, libel/slander, lost wages, pain/suffering, etc., and may be offered in increments of millions, \$1 million, \$2 million, etc.

#### HEALTH INSURANCE

Health insurance may pay for all or part of a person's medical bills. Some plans offer limits of several million dollars over the lifetime of the policy and other

plans provide unlimited coverage. Checking the limits of these policies may be imperative. A plan may only cover \$50,000 to \$100,000 of medical bills. One major illness can exhaust that limit very quickly. Covered costs may include doctor visits, hospital stays, surgery, procedures, tests, home care, and other treatments and services. These plans can include group health plans, individual plans, workers' compensation, and government health plans such as Medicare and Medicaid.

### A NEW PRACTICE MAY be a good reason to consider purchasing a comprehensive disability insurance plan to replace a basic plan.

Health insurance can be further classified into fee-for-service (traditional insurance) and managed care. Both group and individual insurance plans can be either fee-for-service or managed care plans, which include health maintenance organizations, HMO, and preferred provider organizations, PPO.

If a dentist is an independent contractor or a practice owner, the premiums may be tax-deductible.

#### Stage 2: Starting a Practice

##### *Years Six to 10*

At this time, a dentist may be starting his or her practice or purchasing an existing one. This stage may also bring other large investments like the purchase of a home and the expansion of family. These may put a greater financial strain on the dentist. During this time

of growth, a dentist also assumes more risk. Questions may arise. How will a practitioner manage his debts and responsibilities if he or she becomes disabled from practice for four months due to the complications of a ruptured appendix? Has the young practitioner formed alliances in his or her professional community? Are they active in their component dental society? Are they part of a mutual disability agreement group designed to help each other in case of illness or injury? These are all important questions that can be addressed in insurance planning. These questions may be weighed as the dentist considers the following insurance issues:

#### PERSONAL DISABILITY INSURANCE

A new practice may be a good reason to consider purchasing a comprehensive disability insurance plan to replace a basic plan. Comprehensive plans may allow several add-ons, such as the "own occupation" clause previously mentioned. Additionally the "benefits for life" option can extend benefits beyond the age of 65 and a "cost of living allowance" option, also known as a COLA, can raise monthly disability payments to keep up with inflation during the period of disability. The COLA option may be simple or compound interest. The compound interest option may ensure the plan's benefits ability to keep up with inflation.

The COLA option may be important if a dentist is permanently disabled at a young age. For example, if a dentist is disabled at age 43 and has a benefit of \$5,000 per month and the policy has a COLA that averages 6 percent per year in increased benefits, by age 65 the monthly amount will have increased to approximately \$15,000 per month.

The "option to purchase more cover-

age,” better known as a future increase or purchase option, provides the opportunity to increase benefit amounts without further medical exams and tests, and is usually available until the age of 50. It also usually stipulates that any new health problem that has developed since the original policy was obtained also have to be covered. This is incredibly important as health changes over time can often either cause a dentist to have exclusions on their policy or can leave them classified as uninsurable.

A dentist may choose to have a plan that contains “noncancelable” and “guaranteed renewable” clauses. If the policyholder continues to pay premiums, the insurance company cannot change rates, definitions, or the coverage regardless of future health, claim status, or for any other reason. A residual (or partial) disability provision allows a dentist to practice dentistry on a limited basis. In most cases, a 15 to 20 percent or greater loss of income will allow the dentist to collect partial benefits.

A “business reducing term disability income” policy helps to cover practice loans. In case of a disability, the insurance company pays back the loan on behalf of a dentist. The policy is based on the amount and length of the loan. This type of policy may be less expensive than personal disability insurance. Often, these plans are “any occupation,” meaning the dentist must be disabled from all possible occupations in order to collect the benefits.

All disability policies are complex. Thus, garnering advice from an insurance expert is essential.

#### OFFICE OVERHEAD INSURANCE

Major business expenses, including interest for equipment purchased, employee salaries, office insurance, mal-

practice premiums etc., in one’s office are covered under this policy if a dentist becomes disabled for a period of time. There are exclusions. One major exclusion is the disabled dentist’s own salary, which could be covered by personal insurance. Other common exceptions include lab fees and supplies because these expenses will be covered by production if a replacement dentist takes over during the period of disability.

#### ALL DISABILITY POLICIES

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The waiting period for this coverage to take effect is an average of 30 days. The benefit period is for a limited time, usually between 12, 18, and 24 months, depending on policy parameters. Often the coverage is capped at a dollar amount per month. Options to include coverage for the salary of a replacement dentist who might cover for the disabled dentist are available. This type of insurance premium is usually tax-deductible as a business expense.

#### LIFE INSURANCE

The second stage may be a good time to review life coverage and ensure the financial obligations for new responsibilities and debts, including a new practice purchase, a new home mortgage, and children, are protected. The option to add permanent life insurance can also be assessed (as discussed later in this paper). If the insured thinks he

or she may want to exchange some or all of their term policy for a permanent plan, he or she should speak with their broker about the options available.

### Stage 3: Enriching Your Career

#### Years 11 to 25

As the practice grows, assets also grow. The number of employees may increase and associates or partners may enter the practice. The dentist’s family may also be growing, both in number and in age. Additional endeavors like college educations or personal investments may need funding. Certain policies may need attention in order to protect growing assets and to continue to plan for contingencies.

#### PERSONAL DISABILITY INSURANCE

If a dentist currently has a comprehensive personal disability insurance policy with the option to purchase additional insurance, the amounts of the policy can be increased to match his current income, based on the increase option pool that was originally purchased. For example, a personal disability policy purchased at age 35 with a benefit of \$5,000 per month and an “option to purchase additional insurance” in the amount of \$4,000 allows the dentist prior to the age of 50, to incrementally add benefit to the original \$5,000 per month policy to a maximum of \$9,000 per month policy.

Increases are usually done without proof of insurability. This means new medical exams and questions are not required. Usually, only proof of income is required for the increase. The dentist’s income needs to support such an increase, since one cannot insure oneself for more than approximately 50 to 55 percent of his or her pretax personal income.

#### OFFICE OVERHEAD INSURANCE

As the overhead of the practice grows due to staff, equipment, etc., this policy should be reviewed.

#### LIFE INSURANCE

Permanent life insurance, which can be universal, whole, or variable life insurance, may be an appropriate option at this stage. The right type of permanent insurance may depend on risk tolerance, the economy, and available products. These policies accrue cash value and can build income in the future, perhaps adding to the dentist's retirement portfolio. In the case of an untimely death and before a 401(k) is fully funded or portfolio items are mature, life insurance can continue to protect your family.

#### LONG-TERM CARE INSURANCE

Purchasing this policy before retirement or prior to developing health problems may help ensure that a dentist's net worth is not depleted if outside care is needed to treat a long-term illness.<sup>8</sup> In some cases, the "cost of living option" in a disability policy can be used to purchase long-term care insurance. Generally, long-term care premiums are tax-deductible and payments may be made out of a health savings account, HSA. In some cases, especially when the cash flow is appropriate and time is limited, a dentist may choose to purchase this policy for elderly loved ones or dependent family members to protect them from catastrophic expense they may later be responsible for or obligated to pay. Long-term care premiums for a dentist and their spouses may be tax-deductible. In certain circumstances (if one has a certain kind of corporation), the costs of insuring parents or other dependent family members may also be deducted.<sup>7</sup>

## Stage 4: Preparing for Retirement

### *Years 20-plus*

Many await this stage anxiously. Professional and personal realities may be changing. A dentist may choose to work fewer days or sell the practice at this stage. Insurance policies may need to be modified to reflect these changes. As retirement begins, many insurance policies may no longer be necessary.

#### PERSONAL DISABILITY INSURANCE

After the age of 65 and up to 70, some policies can be renewed. However, a significant increase in the premium is likely and the coverage time frame is shortened. As a dentist practices less, he or she may consider discontinuing personal disability, especially if they have long-term care insurance.

#### OFFICE OVERHEAD INSURANCE

If a dentist chooses to decrease the number working days in the office, and/or another full-time practitioner takes over the office, the office overhead coverage may need to be adjusted to reflect coverage for the new full-time producer in addition to, or instead of, the retiring dentist. The plan will discontinue after age 75.

#### LIFE INSURANCE

By age 70, premiums for term life insurance may no longer seem cost effective. Thus, some dentists may choose to phase this type of policy out but continue with their whole life policies.

#### LIVING TRUST

All insurance instruments may be included in this trust. This document may include a power of attorney and a power of attorney for health care assignments. It may also include a "do not resuscitate" clause. The trust helps ensure that those whom he or she ap-

points will manage the deceased's affairs rather than a court-appointed trustee.

A living trust may help maximize estate tax exclusions and are usually flexible. Although the authors have discussed a living trust during stage 4, one can consider this option at a much earlier stage in one's career, particularly if one has children or accumulates assets at an early age.

#### WORKING WITH A TEAM

Brokers and agents will usually provide a copy of the actual policies to review. They often highlight the exclusions and discuss the comparisons between other company's products as well. Brokers will also assist the dentist in consistently reviewing insurance policies as he or she proceeds through the stages of his or her career.

Another form of risk management is a mutual disability agreement with other local dentists, as mentioned in stage 2. For example, if a dentist became temporarily disabled, the members of the agreement, usually other local dentists, would have signed up to the agreement as well and thus be required to treat the disabled dentist's patients until the disabled dentist recovers. Many local dental societies have such sample model agreements.

The insurance market is multifaceted. There are many options. And there can be serious tax implications in many decisions. Personal disability premiums are not usually tax-deductible; however, disability benefits can be received income tax-free. However, if the practice is incorporated and the dentist chooses to write off the premiums, the benefits can then be taxable.

## Conclusion

Consistent review of insurance options, personal and professional liabilities and expenses, and needs assessments will help a dentist as he or she proceeds from

graduation to retirement.

A supportive cast of experts can help a dentist assess and adjust insurance needs during this journey. A reasonable support team may include an accountant who understands the intricacies of a dental practice, an attorney who is well-versed in estate planning, a financial planner who recognizes the dentist's monetary goals and priorities, and an agent or broker who understands all insurance options.

This article has discussed some of the insurance choices available to the practitioner as seen through the framework of the four stages of dentistry: beginning a career, starting a practice, enriching one's

career, and preparing for retirement. The authors hope this article will stimulate the reader to take the time to carefully evaluate their needs in this dynamic area of risk management. ■■■■

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