

Life and Disability Insurance: A Guide to Your Important Choices

One of the most critical aspects of financial planning is ensuring that your risks are covered with adequate insurance. Without it, just one catastrophic event could wipe out everything you've worked for.

But when it comes to life and disability insurance, the choices can be complex. This guide will help simplify your options in seven key areas.

Life, Disability, or Both?

As a young professional, you likely need both life and disability insurance. Disability insurance is critical because the risk of physical incapacity in dentistry is real, and the financial impact can be enormous. (Imagine you're earning \$200,000 a year... a permanent disability could mean losing \$6 million in income over 30 years!) Life insurance is another must-have to protect your loved ones and cover your financial obligations, such as student debt.

There are also important business reasons to get life and disability insurance protection. First, lenders typically require both types as collateral for a practice loan (in case either tragedy strikes before your loan is repaid). And once you own a practice, you should add a business-specific disability policy called business overhead expense insurance to your risk management portfolio, which can provide earmarked resources to keep your practice

functioning if you are disabled. Business overhead expense policies are inexpensive, and may even satisfy a lender's requirement for disability collateral.

Beneficiaries

For your life insurance, you may name one beneficiary or several, depending on what you want that insurance to accomplish—leaving money to a spouse or child, funding a business succession plan, making a bequest to your alma mater, etc. Your beneficiaries could be any combination of family members, business partners, trusts, charities, and so on, as long as the allocations add up to 100 percent.

You should also make a mental note to change your beneficiary(ies) whenever circumstances warrant such adjustment. Getting married or having a child, for instance, should prompt an update—because beneficiary designations generally override a will,

Waiting Period

When you buy disability insurance, you select a waiting period—the time that must elapse from the date you first become disabled until benefits can be paid. The longer the waiting period, the lower the cost of the insurance. A rule of thumb is to consider how long you could manage financially without any income streaming in, and select your waiting period accordingly.

Some dentists diversify their disability coverage by selecting a short waiting period (like 30 days) for half of their insurance, thus ensuring they'd get that first disability check quickly. Then they select a longer, less expensive waiting

period (like 180 days) for the other half. It's a good way to cover the bases and stay budget-conscious at the same time.

Who to Cover

If you're in practice with another dentist, make sure both partners—and the practice—are adequately protected by insurance in the event either partner dies or becomes disabled. Life insurance, in particular, is commonly used in business succession planning.

If you're married, consider using part of your insurance budget for coverage on your spouse. Even if your spouse does not earn an income, the financial impact on your family or practice could be significant if he or she died. Insurance can help protect against the financial burden you'd incur to replace those contributions.

Individual or Group Policies?

You can buy life and disability insurance as an individual or get it as a member of a specific group. You might work with a commissioned insurance agent for an individual policy, or take advantage of group plans available through professional organizations such as the American Dental Association (ADA) or your local small business association. In most cases, you'll secure better rates with group plans thanks to volume buying power.

If you are in the military or work for a large clinic or university, you also may be offered the chance to participate in a group insurance plan as an employee benefit. Just keep in mind that when that employment ends, you probably can't take the insurance with you. It's therefore



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wise to consider getting some coverage on your own, so you'll have protection in place no matter where your career takes you.

Which Company

When shopping for any kind of insurance, it's smart to get several quotes and carefully compare the features of each plan. You might ultimately decide to place your business with more than one company, but be careful not to overpay in high up-front commissions or expense charges.

In addition, check out the financial strength of insurance companies, using independent rating services such as A.M. Best, Standard & Poor's and Moody's Investors Service. Equally important: Ask your peers and mentors for recommendations and inquire about each company's reputation for paying claims and providing reliable service. If you ever have to file

a claim, the last thing you want is a hassle from your insurance provider.

When to Buy

Insurance is fluid, and should evolve over time to parallel what happens in your personal and professional life. You probably need basic levels of coverage now, while you're getting started, but you'll need more protection as your income and financial responsibilities increase.

Review your situation annually, and update your insurance every time your life gains a new dimension like marriage, parenthood, practice ownership or expansion, loan payoff, retirement, etc.

Conclusion

When making insurance choices, your personal circumstances should guide your decisions. If you would like assistance with this analysis, a non-commissioned

ADA Insurance Plan specialist is available by phone (888-463-4545) or online chat (www.insurance.ada.org) at no cost or obligation. Feel free to tap into this expertise for help crafting a customized risk management strategy. ■

Editor's Note: This article does not constitute legal, tax, or financial advice. Please seek professional input as appropriate to your situation.

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