

Dollars & Sense

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Having adequate insurance is a fundamental part of your overall financial plan. It is also something that most people struggle with, as there are innumerable types of insurance with many options to choose from. At its most basic, insurance is a method of transferring risk from you to an insurance company, and you should only pay to transfer risks that you are not willing or able to shoulder. While insurance companies are happy

to insure everyone and everything, in general you should only insure against losses too large for you to bear yourself. Below is one man's KISS (keep it simple, stupid) approach to insurance. This article discusses insurance you almost certainly need, while the next edition will discuss both insurance you might need, and insurance you probably don't need.

Types of Insurance You'll Probably Need

If you cannot afford the costs involved in a particular loss scenario, then you should probably insure yourself against it.

Professional Liability Insurance

If you are practicing emergency medicine, you need professional liability insurance. This insurance will cover attorney fees, expert witnesses, court costs, costs of gathering evidence, and settlements when you are sued — and you will be sued.

There are two types of policies: "occurrence" and "claims-made." Claims-made policies only cover you if a lawsuit is filed while the policy is in force. With this type of insurance, when you leave a job you need to purchase "tail coverage" that extends your liability protection. Tail coverage can be expensive, and before you take a job you need to make sure you know who is going to "pay the tail." Occurrence policies are more expensive because they cover you in perpetuity and do not require a tail.

Disability Insurance

While you can use an emergency fund to "self-insure" against short-term disability, you will need help in the event of a long-term disability — unless you are wealthy enough that you no longer need to work. Typically, you should obtain enough coverage to replace 60-70% of your income up to the age of 65 in the event of total disability. The policy should cover your specific occupation as an emergency physician (known as an "own occupation" policy as opposed to an "any occupation" policy), so that collecting benefits will not require you to be unable to work in any other available job — such as urgent care, occupational medicine, or even a completely nonmedical job. You will also want partial coverage if you can only work part-time. Key components of the ideal policy include:

- Non-cancelable — they can't cancel your policy or raise your premiums if conditions change.
- Guaranteed renewable — no medical exam is required to renew.

- Residual benefit protection — pays you partial benefits or "residual benefits" if you are partially disabled or recover partially from complete disability.
- Cost-of-living allowance — the amount you are paid is adjusted for inflation.

If your employer's coverage is inadequate then look for a private policy, which may be expensive. Some companies that specialize in disability insurance can be found at unum.com, northwesternmutual.com, affordableinsuranceprotection.com, and DI4MDs.com. In addition, professional associations such as the AMA, ACEP, and state medical societies often have group policies available to members. AAEM has one in the works as well.

Try to reduce costs by lengthening your "waiting" or "elimination" period. The waiting/elimination period is the amount of time you have to wait after becoming disabled before your disability payments begin. If you have a substantial emergency fund, you can lengthen your waiting/elimination period and lower your premiums. If you don't, you may need a shorter waiting/elimination period and will pay higher premiums.

Medical/Health Insurance

Unless you are wealthy enough to self-insure and pay your own medical bills in the event of a serious illness, you need medical insurance. If you can get it from your employer, that is probably the best way to limit your out-of-pocket expenses. If you can't get it through your employer, try professional associations. They often have plans available to members that are cheaper than purchasing it yourself. You should also check out healthcare.gov and similar commercial websites. One way to lower your rates is by having a deductible and co-pays on the policy that are as high as you can comfortably afford. Filing a \$100 claim is often not worth the hassle, and higher deductibles and co-pays will lower your premiums. Always consider the policy's annual out-of-pocket maximum, and make sure it isn't more than you could afford to pay in any given year. The whole point of insurance is to protect yourself against unaffordable, unexpected expenses.

Homeowner's Insurance

You need homeowner's insurance to protect the structure of your house, its contents, and to insure against injuries to other people or damage to other people's property. Make sure that the contents of your home are covered for "replacement cost" and not "actual cash value." For example, replacement cost coverage will give you \$1,000 to replace the three year-old laptop that was damaged, while actual cash value would only give you the \$300 the laptop is worth after three years. In addition, you will likely have to purchase a "rider" to cover any high-value items, such as jewelry, expensive art, coin or stamp collections, etc.

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Renter's Insurance

If you rent, unless you can afford to replace all your belongings when a disaster wipes out your apartment building, you need renter's insurance. Renter's insurance also offers liability protection, similar to homeowner's insurance.

Auto Insurance

You need auto insurance in case you have a serious accident and damage your car, injure yourself or others, or damage someone else's property. Lower your rates by having a deductible on the policy that is as high as you can comfortably afford, and carefully evaluate how much collision and comprehensive coverage you actually need. If you are driving an older vehicle, paying for this coverage may not make sense.

Umbrella Liability Insurance

Umbrella liability insurance protects you in case you get sued for reasons unrelated to your profession, and adds liability coverage on top of your homeowner's (or renter's) and auto insurance. It will come in handy if your dog bites someone and they develop necrotizing fasciitis, the mailman slips and falls on your front porch and can no longer work, or a neighborhood child drowns in your pool. It is typically sold in \$1 million increments and is quite inexpensive. A \$1 million dollar policy will typically run \$150-300 per year.

What if you are early in your career and have very few assets? You should still have umbrella liability insurance, since future wages can be garnished in some judgments against you — and being perceived as a "rich doctor" makes you an attractive target for lawsuits.

Preview of the Next Edition

Types of insurance you might need:

- Life insurance
- Long-term care insurance
- Flood insurance
- Earthquake insurance

Types of insurance you probably don't need:

- Life insurance for children
- Rental car collision insurance (loss damage waiver)
- Flight accident insurance
- Travel insurance
- Credit protection insurance
- Extended warranties

If you have ideas for future columns or have other resources you'd like to share, email me at jschofer@gmail.com.

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