

Veterinarians: What happens if you can't work?

Disability insurance isn't very exciting to think about, but even worse is ignoring it until it's too late to get it. Veterinarians of all ages should not ignore this important insurance.

By Dan Routh, CFP

"It won't happen to me." That is what everyone thinks when they try to picture themselves becoming disabled and unable to work.

I don't blame you. Aside from some sleep deprivation, most new graduate veterinarians are healthy, able-bodied 20- and 30-year-olds eager to start their careers. They are used to working on a few hours of sleep, granola bars, and take-out food. Is it really that likely they will become disabled and need to take time off from work temporarily or even permanently?

The reality for 20-year-olds is that 1 in 4 will become disabled before reaching retirement age.¹ That is not exactly a statistic to ignore, especially if you have monthly financial obligations like rent, a mortgage, or student loans.

What is disability insurance?

Disability insurance replaces a portion of your income when you become disabled and can no longer work because of an illness or injury. Typically, you can only replace up to 60% of your income and, depending on who pays the premiums, the benefit may be taxable.

Shop around

American Veterinary Medical Association members have the option to purchase short- and long-term disability insurance as a member benefit. That may not be the best option for every individual, so be sure to shop the market for the best price and benefits, and speak with a certified financial planner about the best options for you.

To understand how disability insurance works, we need to discuss the 2 main types.

Short-term disability covers the first 60 to 90 days after becoming disabled. This coverage is usually offered through your employer, although it may be less common if you work for a small practice where benefits are limited. Additionally, short term disability insurance can cover or supplement maternity leave. A healthy emergency fund of 3 to 6 months of fixed living expenses (think rent, car payments, student loans, groceries, insurance, etc) saved in cash can also serve this role if you don't have short-term coverage through work.

Long-term disability starts after a set period, usually 90 days, and is sometimes offered by employers but more often purchased privately. These policies can provide coverage for a few years or even up to age 65.

3 must-haves in long-term disability insurance

If you are in the market for long-term coverage, be sure to research the insurance carrier and policy features to ensure you are getting the protection you need at a price that fits your budget and long-term financial plan. Premiums typically range from 1.5% to 3% of your gross income, according to one estimate,² and policy features vary. From my experience as a certified financial planner, I suggest you look for the following riders and protections because they are the most applicable to veterinarians and other highly skilled workers.

Own occupation

You worked long and hard to become a doctor. If you become disabled, an own-occupation policy will pay benefits even though you may be physically able to perform and earn an

income in a different job or industry.

Be aware that employer-provided long-term disability insurance may have a restrictive definition of disability called "any occupation" that makes it harder for benefits to be paid, or pays reduced benefits.

Disability insurance replaces a portion of your income when you become disabled and can no longer work because of an illness or injury.

Noncancellable or guaranteed renewable

This ensures that, as long as premiums are paid, the insurance company can never cancel your coverage. A policy without this feature would potentially be cancellable by the insurance company if a material change were to occur (you develop a chronic illness or the company decides to stop covering people in certain health classes).

Income adjustment or future purchase option

These let you increase the coverage level on your policy to match salary increases without going through additional underwriting. Premiums will still increase to cover the added benefit. Think of it like this: Your insurance coverage should grow as your career progresses. This is important for young doctors growing in their practice or for doctors finishing internships or residency.

Don't forget taxes

Taxation of benefits from disability insurance comes down to who pays the premiums. If you pay the premiums with after-tax dollars, the insurance benefits are tax-free. If you pay the premiums with pre-tax dollars, the benefits are taxed. If your employer pays your premiums, the benefits are taxed.

This is important for personal budgeting and tax efficiency. Because disability insurance benefits are capped to roughly 60% of your income, paying taxes on the benefit makes it harder to cover

living expenses. If you have an employer-paid plan, consider buying a supplemental policy to make up for the shortfall in benefits due to the taxes paid.

Protect yourself, protect your family, and do not overlook disability insurance. [dvm360®](#)

REFERENCES

1. The faces and facts of disability. Social Security Administration. Accessed February 9, 2021. www.ssa.gov/disability-facts/facts.html
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