CHAPTER 25

Insurance

John Classé

Down went the owners—greedy men whom hope of gain allured;
Oh, dry the starting tear, for they were heavily insured.
Sir William Gilbert, *The "Babs" Ballads*

Insurance is necessary to the operation of a business, and over the course of a career constitutes a sizable expenditure. Because of the diversity of needs—life, disability, liability, health, automobile, and home—and the variety of products available, practitioners face an ongoing challenge to ensure that the coverage purchased achieves the protection desired and that the insurance benefits will be available when needed. This chapter describes the basic tenets of life, disability, and personal (health, automobile, and home) insurance and provides guidelines for their use.

LIFE INSURANCE

Life insurance is an essential part of both professional and personal planning. Creditors will insist on life insurance as a prerequisite for business loans; partners may want to insure their lives so that, if one partner dies, there will be ready money to purchase the deceased partner's share of the partnership; and an optometrist will want to provide some security for his or her family in the event of premature death. Life insurance is indispensable in today's complex society, and most optometrists will be forced to purchase some form of life insurance (if they have not done so already) as a matter of personal or business necessity.

Although life insurance offers a range of costs to suit most pocketbooks and has many options to choose from, selecting the right policy with the most cost-efficient coverage remains a difficult chore for many professionals. To make this important choice, it is necessary to understand the basic types of policies and how they may best be used.

Life insurance may be defined as "that kind of insurance in which the risk contemplated is the death of the particular person; upon which event (if it occurs within a prescribed term, or, according to the contract, whenever it occurs) the insurer agrees to pay a stipulated sum to the legal representatives of such person, or to a third person having an insurable interest in the life of such person."

Despite its name, life insurance is purchased to pay a death benefit. The cost of this benefit depends in part on the type of company that issues the policy.

Life Insurance Companies

Life insurance—although sold to provide guaranteed protection over long periods—is provided without an insurer knowing at the time of granting the policy exactly how much the costs of providing the insurance will be. There are 2 basic approaches taken by insurers to solving this problem.

Types of Policies

Under one approach, companies sell participating policies, which means that, as the actual costs of providing the insurance become known, they are shared with the policyholders. If the premiums charged for insurance coverage prove to be more than is actually needed, portions are returned annually in the form of policy dividends.

Under the other approach, stock life insurance companies sell nonparticipating policies. If the premiums charged to policyholders prove to be more than are actually needed, the company has a profit; if the premiums instead prove to be inadequate, the company suffers a loss. In neither case does the policyholder share in the gain or loss. The premiums for participating policies are more than those for corresponding nonparticipating policies, but the dividends paid by participating companies give policyholders a choice of several extra options (discussed later) that tend to compensate for the increased cost.

Types of Insurance Companies

There are 2 types of insurance companies: stock companies and mutual companies. Stock companies are owned by stockholders; they finance the company's operation and assume the risks and responsibilities of ownership and management. Most stock companies issue only nonparticipating policies; a few also issue participating policies. Mutual companies have no stockholders. Management is directed through a board, which is elected by the policyholders for whose benefit the company is operated. Nearly all mutual companies issue only participating policies; a few also issue policies on a nonparticipating basis, but the owners of these policies have no voice in the company management.

Types of Insurance Sold

Life insurance policies accounted for about 25% (by premiums paid) of the insurance sold in the United States (nearly $165 million in 2006); by comparison, annuities accounted for 50% of insurance premiums, or about $310 million (Table 25-1).

Types of Life Insurance

The 2 types of life insurance are term life and permanent insurance.

Term Life Insurance

Each type of insurance has its own particular distinctions, but term insurance differs from the others by offering temporary rather than life-long coverage. Premiums for term policies also differ from those of whole life and universal life because term policies periodically jump in cost as the policyholder becomes older. However, term insurance is much cheaper—at least initially—than other types of life insurance. Term insurance exists for a stated period, usually 1 or 5 years. The premium is fixed for the term of the policy, and at the expiration of the policy term, the insurance coverage expires. The policyholder may choose to renew the policy for another term, but the premium for the new term will be more because the policyholder will be older. The premium will rise at each renewal, but the renewal option is not usually offered past age 65. For an additional premium charge, the policyholder may obtain an option to renew that cannot be cancelled by the insurance company, no matter what the policyholder's state of health. A term policy also can be converted to permanent insurance if this option is paid for by an additional premium. The policyholder then has the right to convert the policy without a physical examination whenever he or she desires to do so. There are 2 types of term policies.

Yearly Renewable. Yearly renewable term has premiums that are initially low; however, the premiums increase substantially as the insured gets older. These policies have diminished in popularity because of the introduction of level premium term life insurance.

TABLE 25-1

Insurance Industry Premiums, 2006

Type Of Insurance	Net Premiums Written	Percent of Total
Ordinary Life (individual)	$129,241,600	20.9 %
Group Life	$35,255,000	5.7%
Annuities (individual)	$193,432,600	31.2%
Annuities (group)	$117,152,700	18.9%
Accident and health (individual)	$57,169,300	9.2%
Accident and health (group)	$84,235,700	13.6%
Other Types	$3,226,000	0.5%
Total	$619,712,900	100.0%

Data from A.M. Best, Inc., Oldwick, NJ, 2006. Available online at www.ambest.com .

Level Premium. Level premium term has premiums that remain unchanged over a specified period of time. Coverage is purchased for a period of 5, 10, 15, 20, 25, or even 30 years. After the initial level period expires, the annual premium will increase for the next level (but there is usually a guaranteed maximum increase).

Yearly renewable term insurance premiums increase rapidly with age, whereas level term insurance premiums only change over a period of years (e.g., every 10 or 20 years). Over the 20 years, level term premium costs are about one-third those of yearly renewable term.

The newest product in term life insurance is called the *return of premium* (ROP) policy. A level term policy is purchased, usually for 20 or 30 years, and if the policyholder makes it through the 2 or 3 decades, the insurer pays back the premium payments (tax-free), so the premium cost is zero. However, the premiums are 30% to 40% higher than with regular level term policies (the 30-year policies have the least increase in cost) and the insured has to "stay the course" for the time period involved.

Since term coverage is straight insurance, it is cheaper than any other type, at least for the short run. However, over a lengthy period of years, term coverage actually costs more than permanent insurance, and it is limited by the inability to be renewed past a certain age (65 or 70 years). Because of its initial low cost, term is often the choice of young persons purchasing their first insurance or young married persons looking for maximum protection. Term also offers other advantages, including the following: it can be purchased for mortgage protection; it can be used for practice buy-sell agreements; it can be used to protect the unpaid balance of a practice purchase agreement; and it can be used to supplement permanent insurance. Whenever there is a short-term insurance need that must be satisfied, term insurance usually is given first consideration.

Permanent Life Insurance

Permanent insurance offers coverage for a person's "whole life." The premiums are paid in equal installments, but the length of time that installments must be paid can vary.

Whole Life Policy. Whole life insurance offers coverage throughout the life of the insured. There are three types of policies:

Ordinary Life Policy. An ordinary life policy requires the payment of a set premium for the policyholder's entire life. The premiums are divided into the following two parts: protection and investment. The protection is provided by term insurance; the investment is provided by the cash value, or savings, that accumulates above the cost of the term insurance. During the first few years of a policy, most of the premium is devoted to the cost of providing insurance and little is used for investment. Gradually, as the cash value increases, a proportionally greater and greater part of the premium is used for investment, further adding to the cash value of the policy. As a result, after a period of years the annual increase in cash value (including dividends) can exceed the cost of the premium. This gradual rise in cash value is usually free of income taxation. The cash value can be borrowed—at rates that are established at the time

the policy is taken out and that are usually quite reasonable—and it can be collected whenever the policy is cashed in. Tax is paid only on the amount that exceeds the total premiums paid, less dividends. Therefore an ordinary life policy can be used as a form of investment.

Limited Payment Life Policy. A limited payment life policy, as the name implies, requires premium payments for a limited period, either for a certain number of years or until a certain age is attained. Premiums are more than those for ordinary life because of the shortened period for premium payments, but the cash value escalates at a higher rate than would the cash value of a comparable ordinary life policy. Otherwise, it is similar to an ordinary life policy.

Variable Life Policy. A variable life policy offers investmentoriented "whole life" insurance coverage, with a minimum death benefit and fixed premiums and also provides an investment return based on a portfolio of securities that usually includes stocks, bonds, mutual funds, and money market funds. The value of the policy at the death of the insured is primarily dependent on the return of the investments rather than the death benefit.

Universal Life Policy. A universal life policy is intended to improve the investment opportunities of permanent insurance. The policy combines renewable term insurance with a cashvalue account resembling a money market fund; either element of this policy can be adjusted, thus allowing the policyholder to change the amount of insurance coverage and the investment yield as needed. The investment return on these policies is greater than that of whole life policies (except for variable life), which permits the policyholder to accumulate greater cash value (but there are minimum levels of insurance coverage that must be maintained to enjoy tax-free withdrawals). As in a whole life policy, all earnings of the cash-value account are tax sheltered: no income tax is paid until more money is withdrawn than has been put into the policy. As the cash value increases, money can be withdrawn at no cost to meet major expenses. The cash value also can be used to pay the policy premiums, thereby making the policy self-funding.

Universal life policyholders get an annual statement summarizing their insurance protection and cash value; the interest rate that is being paid on the investment portion; and how much of their money has gone for insurance, investment, and company fees. (Universal life companies charge a fee for management.) These disclosures were a major innovation for life insurance.

Survivorship universal life policies cover two policyholders, and the value of the policy is paid at the death of the second person. The premiums for this type of policy are much lower than those for whole life policies. *Variable universal life* policies also may be purchased. As the cash value increases, the money can be invested in stocks, bonds, or mutual funds, but there is no guaranteed minimum interest rate, as with a regular universal life policy.

Riders

There are four commonly used riders that can be purchased to supplement a whole life insurance policy.

Insurability Protection. A young policyholder can acquire the right to purchase additional insurance at specific intervals, even if the health of the policyholder is poor and without the necessity for a physical examination, thereby guaranteeing that additional insurance can be acquired at stated times to supplement the basic policy. These riders usually limit the option to add such insurance to persons age 40 or younger, so that a 30-year-old policyholder would be able to exercise the option to purchase the additional insurance at stated intervals during a 10-year period.

Family Income Protection. A monthly income can be provided to the policyholder's family should the policyholder die within a stated period. The monthly benefits are paid for a certain period, and then the face amount of the ordinary life policy is paid out to the beneficiary in a lump sum or as an option of some kind. This rider is actually a form of decreasing term insurance, but the premium is less expensive when it is purchased as a rider to a basic insurance policy.

Accidental Death Protection. A policy's face amount will be doubled ("double indemnity") in the event of accidental death if this rider is purchased by the policyholder. Some policies will triple the face amount if death occurs while traveling on a common carrier (e.g., plane, train, or bus).

Disability Protection. A policyholder who is disabled for 6 months or longer can protect the basic life insurance policy by providing for payment of the policy premiums during the period of disability. If the policyholder is totally and permanently disabled, the insurance premiums will be paid by the insurer rather than waived. The cash value of the life insurance policy continues to grow in amount, even though the disabled policyholder is contributing nothing. If the disability is temporary but lasts for more than 6 months, the waiver of premium payments is retroactive to the beginning of the disability and lasts as long as the disability does. These disability benefits are available only for policyholders younger than 60 or 65 years (depending on the age limit allowed by the insurance company issuing the policy).

Whether to add these riders to an individual policy depends on the needs of the individual and the cost of the added coverage. Therefore the decision to purchase a rider is a matter of personal judgment.

Payment Options

There are several options available to a policyholder or policy beneficiary as to how the policy proceeds are to be received.

Lump Sum. The entire face value of the policy is paid out to the policy beneficiary, whether a term, whole life, or universal life policy.

Fixed Period. The face value of the policy is paid out in equal installments, usually monthly, for a stated number of years. Since part of the insurance policy principal is being held by the insurance company, the company agrees to pay a stated amount of interest on this principal. Thus payments made to the beneficiary include both principal and interest. Payments are made whether the policy is term, whole life, or universal life.

Fixed Income. The face value of the policy is paid out in equal installments that are fixed until the proceeds of the policy are depleted. Since part of the policy principal is being held by the insurance company, interest also will be paid to the beneficiary.

Interest Income. The face value of the policy may be retained by the insurance company, with payments to the beneficiary consisting of interest only, with the amount of interest to be specified by the policy. This provision is used to prevent creditors from obtaining any rights in the insurance proceeds received by a beneficiary (often called a *spendthrift* clause because it prevents a beneficiary from dissipating the insurance principal and keeps it out of the hands of the beneficiary's creditors as well).

Life Income. The beneficiary may receive periodic payment for as long as the beneficiary lives, with the size of the payments depending on the face value of the insurance policy and the life expectancy of the beneficiary. Such an option is much like an annuity.

The settlement option that is most appropriate depends on the nature of the policyholder's estate plan and the needs of the policyholder's survivors. Since the various options may present a difficult choice to the beneficiaries, the decision as to which payment option is the most appropriate is usually made during the lifetime of the policyholder.

Annuities

The cash value of a whole life policy can be converted into an annuity. This, in fact, provides a life (rather than a death) benefit from a life insurance policy. The various types of annuities from which to choose are as follows:

Single *premium immediate annuities* are purchased in a lump sum with the policy cash value, and benefits begin immediately (Box 25-1). The annuity pays a certain amount each month to the policyholder for the remainder of the policyholder's life. This is the simplest type of annuity, called a *straight life immediate annuity,* and it has the highest monthly benefits.

BOX 25-1

Example of Single Premium Immediate Annuity

A 65-year-old woman who is retiring decides to convert her life insurance into an annuity. The cash value of her life insurance policy is $165,000, and she uses it to buy a single premium immediate annuity offering a lifetime income and an "installment refund." The monthly income for as long as she lives is $1,524 (equaling $18,288 yearly). Approximately 79% of this income will be received tax-free for approximately 9 years (after which 100% of the income will be taxable).

The "installment refund" guarantees that if she dies before receiving the full $165,000 she paid as premiums, the annuity will continue payments to the beneficiary until this full amount has been received.

Life with period certain annuities guarantee payment for a minimum number of years, and if the policyholder dies before the minimum period has elapsed, the beneficiary receives the annuity proceeds for the remainder of the period. Because payments can extend for a period longer than the life expectancy of one person, monthly benefits are lower than those for straight life annuities. Period certain annuities are not tied to the death of the policyholder and may be purchased for periods of 5 to 20 years.

Joint and survivor annuities are similar to period certain annuities and provide payments throughout the life of two spouses. Full payments are made as long as both individuals are alive, and at the death of one, the payments are reduced in amount (usually by 50%) but continue until the death of the second spouse.

Single premium deferred annuities are purchased in one payment and increase in value at a reasonable rate of interest (and at a guaranteed minimum) until such time as the annuity is scheduled to begin paying benefits to the policyholder (called an *annuitant*). The interest accrued by the annuity is tax deferred, and the annuity can increase substantially in value by retirement, when payments to the annuitant are scheduled to begin (and the annuitant should be in a lower tax bracket). Usually, a loan is taken out of the insurance policy cash value to purchase the annuity. Only part of the annuity benefits are taxable as income because after-tax dollars were used to pay for the insurance premiums for the policy. Furthermore, the loan used to purchase the annuity is not income and hence is not taxable to the purchaser. The annuity also protects the death benefits of the insurance policy from which the cash was borrowed. For example, if $20,000 is borrowed from a whole life policy and a single premium deferred annuity is purchased, the face value of the annuity—$20,000—becomes payable as a death benefit and makes up for the deficit.

In addition, annuities can be used strictly as retirement funds. These annuities are investments into which money is paid, invested, and allowed to grow on a tax-deferred basis (see Chapter 37). Withdrawal without penalty may begin after 59 1/2 years of age and before 70 1/2 years of age. Fixed annuities pay a fixed interest rate, usually with a guaranteed minimum return. Variable annuities allow the investor to select the investment fund and determine the return. The annuity beneficiary receives the fund at the death of the policyholder.

Uses of Life Insurance

Life insurance can be used to achieve the following three important goals: protection, funding, and investment. All three of these uses of life insurance may occur during the professional life of an optometrist. Although protection is the most common reason for obtaining life insurance, particularly among married persons, the capacity for funding that life insurance offers in an optometric partnership, along with its use as a fringe benefit or an inducement to join a practice, should not be overlooked. The use of buy-sell agreements (or stockholder cross-purchase arrangements) in partnerships also is worthy

of consideration. The purchase of insurance for investment purposes is the least used, but universal life policies do offer a return that provides a semi-compulsory investment plan.

When considering the uses of insurance, the following three basic questions must be answered:

1. What kinds of insurance coverage are needed?
2. When should they be purchased?
3. How much of each is necessary?

Although there are no set answers that can be applied to everyone, professionals are linked through common insurance issues that are part of a professional career. From school to retirement, there is a commonality to life insurance needs that can be used to suggest the following general answers to the three questions posed:

1. In early career, begin with term coverage (to create an "instant estate").
2. In midcareer, add universal life (accumulated cash value can be used to pay for a child's college expenses) or convert term coverage to permanent insurance (which has cash value).
3. In late career, consider converting the policy cash value to an annuity (for retirement).

The amount of coverage needed varies—unmarried individuals need less coverage than those who have families—but the general guideline is that coverage should be sufficient to allow the family to adapt after death (typically 5 to 7 years' equivalent of income is required).

To obtain a comparison of premium costs for different types of insurance (Table 25-2), information can be obtained online at www.accuquote.com, and www.insure.com has ratings of insurers.

TABLE 25-2

Comparison of Premium Costs (2007 Figures) for a $500,000 Life Insurance Policy (Nonsmoker)

Policy Type	Premiums	Details
20-YEAR TERM		
30-year-old male	$600	20-year cash value is zero; total cost is $12,000 for males, $8,000 for females
30-year-old female	$400	
20-YEAR ROP TERM POLICY		
30-year-old male	$800	20-year ROP cost is $16,000 for males, $11,000 for females; after 20 years, cost is zero
30-year-old female	$550	
WHOLE LIFE POLICY		
30-year-old male	$1,600	20-year cash value is about $25,000; total cost is $7,000 for males, $5,500 for females
30-year-old female	$1,300	
UNIVERSAL LIFE POLICY		
30-year-old male	$2,400	20-year cash value is about $40,000; total cost is $8,000 for males, $6,000 for females
30-year-old female	$2,000	

ROP, Return of Premium.

Tax Issues

Life insurance proceeds paid as the result of the death of the insured are exempt from income taxation. Therefore the beneficiary of life insurance proceeds pays no income tax on the amount received. There is one exception to this rule, which arises when a life insurance policy is sold or exchanged for a valuable consideration. For example, a partner or a stockholder in private practice who purchases a life insurance policy from the partnership or corporation could incur an income tax liability when the policy proceeds are paid out. A tax advisor should be consulted before initiating this type of purchase.

Even though life insurance proceeds are exempt from income taxation, they are not necessarily exempt from estate taxation. If the proceeds are payable to the estate of the insured, such proceeds are taxable to the estate. If the insured has retained "incidents of ownership" in the policy (rights to control the policy), even though the insured's spouse is the beneficiary, the face value of the policy can be included in the taxable estate of the insured and hence subject to estate tax. Incidents of ownership include such matters as the right to borrow against the insurance policy, change the beneficiary, assign the policy, and cash in the policy. To avoid estate taxation of life insurance proceeds, the insured must relinquish all rights in the policy to someone else (usually the insured's spouse). Such a transfer is rarely a taxable event in itself, although a gift tax can be incurred if the policy has sufficient cash value. The transfer is a permanent event, one that removes the insured's rights in the policy forever. If the policy is given to the insured's spouse and the spouse dies before the insured, then the spouse's estate incurs the estate tax on the insurance proceeds at death (see Chapter 39).

DISABILITY INSURANCE

Disability is a distinct and sobering possibility when analyzed statistically. There is a 90% probability that one in three men 25 years old will be disabled for at least 3 months before reaching age 95; a 92% probability that one in four men 40 years old will be disabled for at least 3 months before reaching age 65; and a 91% probability that one in five men 50 years old will be disabled for at least 3 months before reaching age 65 (Table 25-3).

Professional men (and women) are not exempt from these rather surprising odds, even at a relatively young age (Table 25-4). The risk of disability is not the sole statistic that creates concern; the likelihood that disability will be long term also is significant. For example, of 24-year-olds who are disabled, only 44% will recover and 46% will still be disabled after 5 years. This genuine risk has to be considered when entering into practice (Table 25-5).

Before purchasing disability coverage, however, a practitioner must understand the types of disability insurance that are available.

Types of Disability Insurance

There are three principal sources of disability insurance that can be used by an optometrist: government plans, occupational plans, and private plans.

TABLE 25-3

Mortality Versus Disability for Men

Age (yrs)	Number of Men in Group: 1	2	3	4	5	6
PROBABILITY OF AT LEAST ONE DEATH BEFORE AGE 65						
25	30%	51%	66%	76%	83%	88%
30	29%	50%	65%	75%	82%	88%
35	29%	49%	63%	74%	81%	87%
40	27%	47%	62%	72%	80%	85%
45	26%	45%	59%	70%	78%	83%
50	23%	41%	55%	65%	73%	80%
PROBABILITY OF AT LEAST ONE LONG-TERM DISABILITY BEFORE AGE 65*						
25	53.7%	78.6%	90.1%	95.4%	97.9%	99.0%
30	52.2%	77.1%	89.1%	94.8%	97.5%	98.8%
35	50.3%	75.3%	87.7%	93.9%	97.0%	98.5%
40	47.7%	72.7%	85.7%	92.5%	96.1%	98.0%
45	44.3%	69.0%	82.7%	90.4%	94.6%	97.0%
50	39.4%	63.2%	77.7%	86.5%	91.8%	95.0%

Data from Commissioner's Mortality Table, 1958; Commissioner's Disability Table, 1964. * Disability lasting 90 or more days.

TABLE 25-4

Probability of Long-Term Disability*

Age (yrs)	Probability of Disability
25	44%
30	42%
35	41%
40	39%
45	36%
50	33%
55	27%

Data from Society of Actuaries, 1985. Available online at www.soa.org. * 90 days or more before age 65.

TABLE 25-5

Probability of Continuing Disability after 5 Years

Age (yrs) at Onset of Disability	Recovered	Died	Still Disabled
24	44.1%	9.7%	46.2%
35	34.0%	12.4%	53.7%
45	21.5%	19.9%	58.6%
55	11.8%	28.5%	59.7%

Data from Society of Actuaries, 1985. Available online at www.soa.org.

Government Plans

Among the major providers of disability protection are federal and state governments. Benefits can be obtained from any of the following 5 programs: Social Security, workers' compensation, sickness disability, veterans' disability, and GI insurance. For the individual who qualifies, these plans will be an important source of financial support while disabled. However, the amounts usually paid by these plans compare unfavorably with the benefits payable under occupational or private plans.

Occupational Plans

A common source of disability insurance for optometrists is the job-related plan, which can come from contractual disability compensation plans, self-employed retirement plans, profit-sharing plans, pension plans, or group health insurance plans.

Contractual Disability Compensation Plans. Contractual disability plans may be included in partnership agreements to allow a disabled partner to receive disability income for a stated period, often as a percentage of the base salary the partner was earning before being disabled. Benefits usually decrease on a percentage basis during the term of disability, so that after a number of months the partner's disability income is reduced to zero. An employer may voluntarily pay a disabled employee disability income or may supplement disability payments made by the government, but in the absence of some contractual obligation (which is rare), payments are made at the generosity of the employer and can be terminated at any time.

Self-Employed Retirement Plans. Self-employed plans may be used by a disabled individual who qualifies to provide income during the period of disability. The Employee Retirement Income Security Act (ERISA) permits such withdrawals to be made without penalty. Of course, doing so initiates the gradual depletion of the individual's retirement fund, a course of action that should not be undertaken without necessity.

Profit-Sharing Plans. Profit-sharing plans are often an important fringe benefit. Qualified plans can include provisions for disability income, with benefits payable either periodically or as a lump sum.

Pension Plans. Pension plans may provide for payment of retirement funds in the event of total and permanent disability, but there can be major differences in the benefits to be paid out, depending on how closely related the retirement and disability provisions are. Some plans determine the amount of disability benefits to be paid in accordance with the pension rights that have vested before the time of the disability; others reduce benefits if disability payments are received through Social Security or other government plans; and the best plans clearly separate retirement and disability income so that both can be received.

Group Health Insurance Plans. Group health insurance plans may not only offer the usual medical, surgical, and hospital care but also may include provisions for disability. Plan benefits are typically expressed as a percentage of salary, with the percentage declining over the term of the disability to some minimum. An alternative form of payment is a strict

percentage of salary, payable for a term of years or until age 65. The funding of these plans has significant tax ramifications that must be understood by both employer and employee.

Although government and occupational plans are important to disability protection, most optometrists find it necessary to obtain supplemental coverage through private sources, especially optometrists who are early in their careers and have little or no occupational coverage.

Private Plans

Private insurance is a difficult problem for practitioners because the possibility of disability cannot be ignored, but insurance coverage is expensive. In considering the purchase of disability insurance, the following five basic questions can be used to determine the suitability of a disability policy:

1. How Long Must the Disability Last Before the Insurance Begins? The period before benefits begin is called the elimination period; the longer this period is, the cheaper the policy will be. Of course, a lengthy elimination period may mean no income at a time when money is sorely needed, and so the economic advantages and disadvantages of a policy's elimination period must be given careful consideration.

2. How Long Does the Disability Coverage Continue? The benefit payment period may be a year, 5 years, or until age 70; the longer the period during which benefits will be received, the greater the value of the policy (and the greater its expense). Rarely do policies pay for benefits for life (except for disabilities due to accident). The definition of disability under the policy plays a key role in determining whether full benefits will be received. Some policies require that the disabled individual be confined to home to qualify for payments; others may pay only partial benefits (or none at all) if the individual can work at any occupation. A recurrent disability (one that occurs again) is a potentially troublesome problem for both the insured and insurer; whether a policy awards full compensation for recurrent disability should be ascertained.

3. What Type of Disability Is Covered? How a policy defines disability establishes the value of coverage. Disability is best described as being "an inability to perform the duties of one's regular occupation"; some policies may define disability as being unable to perform one's own occupation for 2 years, and after that period, the definition changes to "any reasonable occupation that one is suited for by education, training, and experience." An alternative definition is "an inability to work at any gainful occupation for which one might be considered reasonably fitted by education or training," and an even broader definition is "an inability to work at any occupation." The less specific the definition, the less likely that the insured will be able to draw full benefits for an extended period.

Certain conditions may be excluded from the definition (such as pregnancy) or be excluded from coverage if they did not originate after the insurance began. For this reason, the best policies cover illness that manifests itself before the policy is issued (rather than illness that originates after the policy has been taken out). Another aspect of the definition that is important is the type of disability being covered: whether it is total, partial, or both has a significant influence on the value of benefits. In addition, a policy that offers an incentive to return to work can provide for the cost of rehabilitation programs that speed recovery. Also, a policy that includes residual benefits will pay partial benefits in the event the policyholder is able to return to work part time. However, years of part-time benefits are likely to be eroded severely by inflation; fortunately, some policies raise the earnings limit periodically and thus defray the effects of inflation. Cost-ofliving adjustments also can be included to adjust policy benefits upward annually, but they are an expensive addition to a basic policy.

4. What Is the Maximum Benefit Under the Policy? The benefit paid to a disabled practitioner is based on the income of the practitioner before taking out the policy. Income tax returns are used to determine the practitioner's income for purposes of establishing the benefit. The benefit to be paid is usually expressed as a percent of the practitioner's income, with 50% to 60% being customary. For example, an optometrist earning $100,000 who takes out a policy providing a 60% benefit would receive $60,000 per year if totally disabled as defined in the policy.

Beginning optometrists without a record of earnings may obtain coverage based on the first year's salary offered by an employer. For self-employed optometrists starting a practice or an optometrist purchasing a practice, projections by the insurer may be used to determine benefits to be paid in the event of disability. However, the disability income levels offered by such policies are soon inadequate, requiring that new income limits and premiums be established.

When a policy is taken out, the disability benefits are based on the income of the optometrist at the time of application. If income increases and the optometrist wishes to increase the benefit, the policy provisions will determine how this can be done. Some policies specify a level benefit, which means that the optometrist will have to apply for another policy. Because the optometrist will be older, and the benefit higher, the cost of the policy obviously will be affected. Other policies may permit periodic increases in the benefit, based on increases in the optometrist's income. If the optometrist chooses to increase the benefit, the premium cost also will increase.

5. *What Is the Cost of the Policy?* The foregoing considerations are of obvious importance when discussing cost because the policies with better benefits will cost more than lesscomprehensive competitors. In addition, there are costs that are not as obvious as the premium to be paid. For example, if the cancellation clause permits, an insurer may be able to cancel the policy, refuse to renew it, or increase the premium by a substantial margin. Thus one of the most expensive types of policies is one that is "guaranteed renewable and non-cancelable." No matter what the state of the policyholder's health, the insurer cannot cancel the policy or alter the premium (although premiums may systematically increase at stated ages).

A "guaranteed renewable" policy is cancelable, but the policyholder can renew the policy, even though there is a risk that the insurer may raise the premium for the policyholder's risk class. The worst policies are those that are "optionally renewable": they only require the insurer to keep the policy in force

until the next premium is due to be paid. The benefits to be paid in the event of disability may be substantially raised by the insurer even during the period of guaranteed renewability, thus increasing the premium cost. Also, the policy may contain a provision that does not waive the payment of premiums during the period of disability, thereby reducing the value of the benefits actually received.

Disability policy coverage is more expensive for age-matched women than for men. The reason is that although women make up 11% of disability insurance policyholders in the United States, they file about 85% of all disability claims.

Disability Coverage for Beginning Practitioners

Another important question—at least for beginning practitioners— is whether to purchase disability coverage. If premiums are high (private policies are the most expensive) and coverage is modest (income is relatively low until practice earnings begin to rise), there is reason to defer its purchase, but it is clearly a risk to do so. If coverage is purchased, it is often under a group policy, such as is offered by the American Optometric Association (AOA) to its members. Group policies are cheaper than private policies but differ from them in important ways.

Group Disability Coverage

One limitation of group coverage is that it is available only for as long as the practitioner remains a member of the group. Coverage can also be terminated if the group or insurer decides to terminate it. Coverage often depends on the practitioner being "actively engaged in the profession," which is defined as a certain number of hours per week (30 hours per week in the AOA policy). Thus part-time practitioners may not qualify.

The cost of group policies can be increased if the insurer deems it necessary (e.g., due to demographic changes in the group). There may be no cost-of-living adjustments to increase benefits (as in the AOA group policy). Also, group policies may not refund the premiums paid during the "elimination period," which is a customary provision of private policies.

But one of the most important differences between private and group policies is the definition of disability. Group policies usually do not limit disability to an inability to perform the regular duties of one's own occupation, but rather base the payment of benefits on the disabled individual's ability to work in a "gainful occupation." A "gainful occupation" is often defined as "that employment within the profession for which the individual is reasonably fitted by training, education, or experience." If 60% or more of the income level enjoyed before the disability can be earned at this occupation, benefits will cease. Thus group policies offer "income replacement" rather than payment for inability to perform a specific profession or occupation. (The AOA group policy, however, covers inability to perform the duties of an optometrist.)

In a private "own occupation" policy, an optometrist who could no longer practice but could work at another job would be able to earn this income and still be paid full disability benefits (until the combined incomes exceeded pre-disability income). In a group "income replacement" policy, any money earned, even in another occupation, reduces the disability benefits paid.

The difference in cost between private and group policies is substantial. For example, a 40-year-old optometrist earning $100,000 who wants to purchase a $5,000 a month "own occupation" private disability policy (to provide coverage until age 67) would pay about $3,000 a year. (A female would pay significantly more.) The annual cost of a group "income replacement" policy for the same optometrist would be about $950. Because a group composed of men and women receives a "unisex" rate, a female optometrist would pay the same amount.

An employee optometrist can buy an individual private policy even if there is group coverage. The employer "owns" the group policy, which means the employee cannot keep the coverage if the employment ends and the employee starts another job (there is no federally-mandated coverage for disability insurance that allows coverage to continue after employment ceases).

Since the employer pays for the group coverage, benefits received by a disabled employee are taxed as income. That results in a 20% to 30% reduction in the benefits paid during disability, which are only 50% to 67% of earnings before disability to start with.

Sources of Disability Income

The obvious use of any type of disability insurance is to supply income during an extended period of sickness or injury. Since disability income can arise from any or all three types of insurance (governmental, occupational, or private), it is necessary to understand the interrelation of these three sources of disability benefits and how they can be used to maximum advantage.

The first step in planning the use of disability insurance is to assess the income that would be needed should serious and debilitating illness or injury occur. During the period of disability, certain expenses could be expected to decline: travel, entertainment, clothing, charitable contributions, and other unnecessary budget items. Taxes also would be reduced. At the same time, medical expenses could be expected to increase. Careful planning, such as a waiver of premium riders on life insurance, can reduce some expenses. However, some contingencies cannot be totally anticipated. For instance, a working spouse may find it necessary to work less or to give up working altogether to care for a disabled mate. Although individual needs may differ, the actual amount required to sustain a family during a period of disability for the breadwinner may be less than two-thirds of the family's pre-disability income.

Once the amount of income necessary to support the family is determined, the next step is to identify the sources of disability income that can be relied on, particularly during the first year of disability. These sources include accounts receivable, Social Security, disability insurance (occupational or private), cash reserve, and personal investments.

Accounts Receivable

For optometrists in private practice who operate on other than a cash-only basis, which is the overwhelming majority, some income can be expected during the first 3 months of disability (or perhaps even longer) because of patient fees that are due and have not been received. Of course, some of this income will be needed to cover the costs of office overhead (unless office overhead insurance is purchased). The cost of operating the office during this period, including hiring a temporary stand-in, and the income that can be anticipated from collecting receivables should be analyzed.

Social Security

The following two major hurdles must be cleared before Social Security benefits for disability can be secured: the disabled optometrist must prove that the disability will last for more than a year (or will result in death) and a 5-month waiting period must elapse before benefits begin to be paid during the sixth month of sickness or injury. If an optometrist-employee is injured on the job and has a workers' compensation claim pending, the Social Security benefits may be reduced or payment delayed. Once begun, however, Social Security benefits continue for as long as the disability. Unfortunately, the benefits are relatively meager.

Disability Insurance

Since Social Security benefits require a 5-month waiting period, and accounts receivable can probably provide only about 3 months (if that) of income, there is an obvious need for some form of insurance protection during these first few months. Occupational disability plans often fulfill this function: partnership agreements and pension and profit-sharing plans are used to provide income to a disabled partner or shareholder, typically on a decreasing basis as the disability persists over an extended period. Since there are other practitioners available to cover for the disabled partner or shareholder, the optometrist's practice continues to operate. However, the solo practitioner is often faced with the twin problems of no occupational insurance and no one to cover the practice but may be able to plan for these eventualities through the purchase of personal insurance.

The following policies could be used to alleviate this situation: (1) a 90-day elimination period that could pick up after outstanding accounts receivable payments have ended and could provide needed income until Social Security benefits begin or (2) a 6-month or 1-year elimination period (which would make it considerably cheaper) that could restore income to needed levels in the event a long-term disability is incurred. During the 3- to 9-month period that only one insurance policy is paying benefits, it might be necessary for the optometrist to supplement income with money withdrawn from a cash reserve.

Cash Reserve

The purpose of a planned-for and adequately funded cash reserve is to provide ready cash for eventualities such as disability. If not enough income is realized during the first few months after sickness or injury, this fund may have to be used so that other sources of revenue (such as investments, retirement accounts, and prized assets) will not have to be liquidated.

Personal Investments

If no other source of income is available, investments may have to be used; such a move should be a last resort because the result is an invasion of the optometrist's retirement plan. In many instances, the sale of investments will not incur significant taxation since the disabled optometrist's tax bracket will doubtless be low. Money market funds should be sold with great caution because of early withdrawal penalties for certificates of deposit (CDs) that are cashed before maturity, and it might be difficult to reinvest in a fund after recovery from the disability. For a sole proprietor who has initiated an IRA or Keogh plan, withdrawals made before retirement as a result of disability are not subject to penalty and neither are similar withdrawals made from corporate retirement plans. Of course, reducing the amount of money set aside for retirement may have rather significant consequences as the years pass.

When income is not sufficient to meet anticipated expenses, an income gap can arise that must be filled from some source. Planning for such an eventuality requires care and is commonly a long-term proposition. Analogous to these personal considerations is the equally difficult problem of how to keep a practice open and running when the primary source of income—the optometrist—is no longer able to work. The most vulnerable practitioner is the sole proprietor.

The Disabled Practice

Since optometry is widely composed of individual practitioners, the specter of disability is an ominous one for many members of the profession. If an optometrist in solo practice becomes disabled, the ability of the practice to generate new income is likewise disabled. Yet, to keep the practice running, there are overhead expenses that must be paid. No private disability insurance policy offers the payment of overhead expenses as a benefit. This form of indemnification can only be obtained though the purchase of office overhead insurance.

If the disability of the optometrist is short term (lasting but a few months), the optometrist will want to keep the practice open to collect any accounts receivable and to render any services that can be offered. Most optometrists would consider the financial burden of doing so as much an obligation to their patients and employees as an economic necessity. Of course, if the accounts receivable are substantial (and collectable), they may not only be able to keep the office doors open but also be able to provide some income for the disabled optometrist.

Many practitioners prefer not to allow substantial accounts receivables to accumulate, which can make the cost of maintaining the practice during disability prohibitive even though office personnel are reduced to a minimum. One way to generate new income is to have a substitute practitioner, an eventuality for which plans can be made. However, the substitute may not be able to produce enough income to pay both the office overhead and the substitute's salary, and office overhead insurance does not provide for a substitute's salary. For the individual

practitioner, the longer the disability lasts, the smaller an asset the practice becomes. A long-term disability (which the optometrist knows will last for years) will most likely result in an effort to sell the practice because the longer the practice goes unattended, the fewer the number of patients will remain loyal, with a corresponding diminution in the value of the practice.

Office Overhead Insurance

One type of private disability coverage is office overhead insurance. It is a limited form of insurance that reimburses a disabled practitioner for fixed expenses that are normal and customary to the practitioner's practice and office. To qualify for benefits, the practitioner must be totally disabled—the definition of which will be found in the policy—and satisfy the elimination period (usually half or an entire month). The benefits are limited to the actual overhead expenses incurred by the practice, for which the doctor will be reimbursed up to 100% (or to the policy limits).

Office overhead expenses are rent, electricity, heat, water, laundry, employees' salaries, and similar costs of operation. Excluded are the practitioner's salary (or any other remuneration payable to the disabled practitioner); substitute fees; and cost of frames, lenses, instruments, or equipment. The expenses that will be paid are only those that are actually incurred; if the office staff becomes reduced and overhead is thereby cut, the insurance only compensates the disabled practitioner for the expenses required to maintain the reduced staff and overhead. Benefits are payable for a stated period and may or may not be retroactive to the first day of disability, depending on the policy (18 months to 2 years is customary). Like disability policies, there are several provisions that should be examined, including the right to cancel, waiver of policy premiums during disability, option to convert the policy into disability insurance, and extended benefits in the event of death.

Riders

Disability policies vary in cost because of the presence or absence of various riders. Most of the available riders have been discussed in the preceding sections, but some of the more important ones include the following:

Disability Period

Some plans offer extended benefits (payable for life or until age 65 or 70) for both accidental disability and disability resulting from sickness.

Recurrent Disability

The most liberal policies will consider a recurring disability to be a new disability (thereby extending the period of benefits) after a relatively brief period of recovery.

Residual Benefits

Partial benefits may be offered to a practitioner who can return to work part time, with guaranteed escalation in the annual earnings limit so that the total loss of insurance benefits is delayed.

Right to Renew

The best policy is one that is guaranteed renewable and non-cancelable.

Cost-of-Living Adjustment

Since inflation erodes income, some policies offer annual adjustments to the benefits being paid to the disabled policyholder.

Limited Exclusions

The fewer the exclusions (for illness or accident), the more comprehensive the policy.

Waiver of Premium

In the event of total disability lasting for a stated period of months, the premiums for the disability insurance policy will be waived for the remainder of the period for which benefits are payable.

Although cost is a major consideration when evaluating a policy, it is the overall package of benefits for a particular cost that must be assessed before deciding that one particular policy is a better buy than another.

Tax Issues

The disability income that a self-employed practitioner receives as the result of insurance coverage purchased with the practitioner's money is not taxable as income because it is considered to be compensation for injury. The premiums paid for the insurance are not deductible.

If disability benefits are received as the result of an employer-purchased plan, the tax considerations are somewhat more complicated, and an accountant's advice will be needed. Any premiums paid by an employer for an employee's disability insurance policy may be deducted as a business expense; the premiums are not considered to be income for the employee.

Disability insurance will have more appeal for solo practitioners, older optometrists (who are more at risk to be disabled), and practices for which the tax considerations are favorable. However, because the likelihood of long-term disability is a statistically significant one, this form of insurance will deserve consideration at one time or another by virtually all optometrists.

PERSONAL INSURANCE

A discussion of insurance would not be complete without some mention of the personal coverage that each individual requires to protect three very important aspects of life: health, home, and transportation.

Health Insurance

Before 1965, when Medicare was authorized by the US Congress, health insurance provided lifetime care that was guaranteed to be renewable. Today, however, most policies

terminate at age 65, when Medicare benefits begin, which means that the average optometrist will need a health care plan for about 4 decades (ages 25 to 65).

Health insurance is a highly preferred benefit of employment, but employed optometrists may find themselves limited by the plan that is offered by the employer. Extra or more inclusive provisions, if they can be added, must be paid for by the employee.

Self-employed optometrists have the following 2 concerns: health insurance as a benefit for employees and personal coverage for the optometrist and his or her family. In choosing a personal plan, the optometrist may be able to enroll in a health maintenance organization or preferred provider organization or may opt for basic medical coverage under Blue Cross/Blue Shield or similar providers.

Major Medical Coverage

The most basic coverage is a major medical policy, which is intended to defray the cost of catastrophic illness, a financially devastating eventuality for the uninsured. The following are 2 key aspects of major medical coverage: there is an annual deductible, which the insured must pay before the major medical coverage applies, and medical expenses that qualify under the plan and that exceed the deductible will be paid by the insurer up to a stated percentage, usually 80%. In addition, some plans will pay 100% of eligible expenses once a certain level is reached.

Hospital Indemnity Insurance

Hospital indemnity insurance is a supplemental insurance plan that can be used to provide protection for hospital expenses, and it can be added to preexisting major medical or other health insurance. Benefits are typically paid directly to the recipient, beginning with the first day of hospitalization, and pay for as much as a year of continuous confinement. Benefits are often increased for a limited period if intensive care is required. There are limitations to such policies (60 and 65 being the customary ages beyond which no insurance can be obtained), and there are several important exclusions that are usually present in the policy (e.g., suicide, pregnancy, nursing home services, or preexisting conditions).

Health insurance is usually available to employees of selfemployed optometrists. Often, coverage is purchased at group rates, through organizations such as the AOA.

Individual coverage is more expensive, and cost, benefits, complexity, and other factors determine which coverage is appropriate for a given practitioner or family. Maternity leave is an important coverage issue.

Maternity Leave Coverage

Plans that provide maternity leave are usually desirable; although a self-employed practitioner can choose a health insurance plan that provides appropriate coverage, an employed optometrist is limited to the plan provided by the employer. There is no legal requirement that an employer offer a health plan to employees, but if an employer opts to do so it must comply with ERISA, as well as state requirements that often mandate maternity and prenatal care (unless the employer is self-insured). In many states these laws require that health care plans include minimum maternity stays. When an employer is self-insured, the plan is not governed by state laws but only by ERISA. These ERISA-controlled plans have been affected by the federal Health Insurance Portability and Accountability Act (HIPAA), which specifically addresses maternity leave.

HIPAA was enacted to provide health care coverage when changing employment. However, HIPAA only applies to employer-sponsored group health insurance plans. If a pregnant employed optometrist changes jobs, because of HIPAA, the new employer's group health insurance plan cannot deny coverage (by citing a "preexisting condition"). But an employee changing from one individual health plan to another individual health plan or from a group plan to an individual plan might not get prenatal or maternity coverage at all, might have to endure a "waiting period" (period before the new plan becomes effective), or may have to buy expensive individual coverage.

A self-insured employer that offers group health benefits, if it includes maternity coverage, cannot exclude a new employee's pregnancy under a "preexisting condition" clause. However, there can be a waiting period before coverage begins, even for employees eligible for insurance coverage under HIPAA.

The Consolidated Omnibus Budget Reconciliation Act (COBRA) allows qualified workers, their spouses, and their dependent children to maintain insurance coverage when it might otherwise be cut off. Under COBRA, if an employee voluntarily leaves a job or is terminated for any reason other than "gross misconduct," the employee is guaranteed the right to continue the former employer's group plan for individual or family health insurance, for up to 18 months, at the employee's expense. However, individual plans (those purchased individually rather than through work or an association) are not subject to COBRA law. In addition, employers are not required to offer COBRA unless they have at least 20 employees.

If maternity leave is offered by an employer, plan requirements must conform to the federal Pregnancy Discrimination Act (PDA). The PDA requires that women affected by pregnancy be treated in the same manner as other employees with similar abilities or limitations. The Federal Maternity Leave Act (FMLA) requires employers to permit 12 weeks of unpaid leave for the birth and care of a newborn, but the law only applies to employees who have at least a year of employment and to large employers (more than 50 employees).

Cafeteria Plans

These plans are often offered by employers, such as optometrists, because they allow employees to choose a benefit package by selecting different types or levels of benefits:

- Each employee is allotted a predetermined number of dollars, credits, or points with which to purchase benefits from options made available by the employer.
- Common options include health, dental, and life insurance; accidental death coverage; disability insurance; child care; and vacation leave.
- Retirement benefits cannot be included as benefits except under a 401(k) plan but even this is unlikely due to cost.

Cafeteria plans may include health care flexible spending arrangement (FSA) accounts (discussed below).

Medical Insurance Reimbursement Plans

Another option for employees are plans that provide reimbursement to employees for medical expenses. The first of these plans, the *medical savings accounts* (MSAs), has the following features:

- Self-employed individuals are allowed to establish a high deductible (2008 limits are a minimum of $1,950 for individuals and $3,850 for families) health plan for themselves or for employees.
- Annual maximum contributions limits are also established (as of 2007, $2,900 for individuals and $5,800 for families).
- Deductible deposits are tax-deferred and interest accrued just like an individual retirement account (IRA); funds could be withdrawn tax-free for medical expenses, but if there was money left in the account at the end of the year it could not be carried over to the next year.

MSAs were largely converted into *health savings accounts* (HSAs) and were first authorized in 2004, with the following features:

- Both employed and self-employed individuals are eligible to set up HSAs
- The individual enrolls in a relatively inexpensive high deductible (major medical) health plan (as of 2008, minimum deductible $1,100 for individuals and $2,200 for families, maximum $5,600 for individuals and $11,200 for families).
- This tax deductible amount is deposited in a savings account (IRA) for the payment of medical expenses.
- The money is invested and grows tax free, and there is no tax incurred on payments from the account made for medical expenses. HSAs also allow the following:
- The unused money in the account to “roll over” from year-to-year.
- The savings account to be funded solely by the individual or with contributions from an employer.
- The account is transferred with the individual if the individual changes employment.

An important limitation of HSAs is that the individual cannot have any other health insurance plan in addition to the high-deductible health plan. However, there is an exception for married couples (but the HSA-covered individual must not be covered by the spouse’s plan).

Health *flexible spending arrangements* (FSAs), or “flex plans,” are also used to achieve tax savings as follows:

- Only employees can have these plans, which are often part of an employer’s cafeteria plan.
- A flex plan is usually funded by the employee but employers may also contribute. The plan must prescribe either a maximum dollar amount or maximum percentage of compensation that can be contributed. Contributions are excluded from income and Social Security/Medicare taxation.
- Withdrawals to pay medical expenses are not taxed.
- Amounts not used by the end of the year are usually forfeited.

Practitioners must decide which of these plans are best suited for their own use, and whether to offer an HSA or flex plan to employees as a benefit of employment.

Homeowner’s Insurance

There are four types of homeowner’s insurance: personal liability insurance; dwelling, unscheduled personal property and living expense insurance; scheduled property insurance; and mortgage insurance. This coverage can be included within a standard homeowner’s policy.

Personal Liability Insurance

Coverage with personal liability insurance provides an insured with protection against legal liability for any nonvehicular accidents that might occur on the insured’s property. The usual type of eventuality is a “slip and fall” injury.

Dwelling, Unscheduled Personal Property, and Living Expense Insurance

Dwelling insurance covers a number of perils that involve an insured’s home. It protects the dwelling against fire, lightning, and other catastrophe, to the policy limits; in addition, extended coverage against hail, windstorm, explosion, riot, falling trees, or crashing cars can be obtained. Coverage also can be provided for the theft or loss of personal items. As an adjunct to such coverage the insured needs to keep the receipts of all major purchases or take photographs of these items in the house or apartment. (An inventory also is a good idea.) The preferred type of coverage is called “replacement value” (rather than “cash value”) because it allows replacement of the damaged or destroyed item with one of the same kind and quality, to the limits of the policy. “Extended replacement” coverage will pay above the policy limits, if necessary.

The owner of items of special value (e.g., jewelry, art, or antiques) should check with the insurer to make sure that those items are covered. If there is a homeowner’s policy, the personal goods in the home may be insured for a percentage of insurance on the dwelling (between 50% and 70%), but this coverage may not be sufficient for extremely valuable items (discussed later).

In the event that a home is damaged and made unfit for habitation, living expense insurance provides coverage for the period that the insured and his or her family are forced to live outside the home while it is being repaired, but the extent of these payments is limited to a percentage of dwelling coverage (usually 20%).

Scheduled Property Insurance

All standard homeowner’s policies will limit financial reimbursement for the loss of certain items, such as jewelry, silverware, works of art, and antiques, and similar things of value. To insure this property, the individual items (e.g., a wedding ring, silver flatware, or original painting) will have to be valued separately, or “scheduled,” on the policy. The item will be protected for the scheduled value in the event of theft, loss, or destruction. Of course, the premium cost escalates when there is increased insurance coverage, and the policyholder will have to weigh this added cost and the risk of loss before deciding whether to schedule such items. In addition, before purchasing a homeowner’s policy, care should be taken to ensure that it meets the policyholder’s needs.

Mortgage Insurance

Mortgage insurance protects a spouse against the eventuality that, with the insured's death, the spouse will no longer have the income to meet the mortgage payments. Mortgage insurance pays the mortgage balance in the event the insured dies, thus ensuring that the home will be unencumbered. Mortgage insurance is often purchased as a decreasing term rider on a permanent insurance policy, but it can be purchased separately.

Vehicle Insurance

An optometrist must adequately insure any vehicle that is used in a private practice, especially if employees are permitted to drive it. A personal vehicle also deserves adequate insurance coverage. The types of coverage are established by state law and usually include liability, collision, comprehensive, medical payments, and uninsured motorist coverage.

Liability Insurance

Liability insurance provides protection if the insured (or other insureds) cause an accident that results in personal injury, property damage, or both. The insurance company will defend the policyholder in court and pay all judgments against the policyholder up to the policy limit. The policy limit is expressed as a ratio, such as $100,000/$300,000; this example means that coverage extends up to $100,000 per claimant and up to an aggregate total of $300,000 for all claimants involved in the accident (Box 25-2).

Collision Insurance

Collision coverage reimburses the insured for damage done to the insured's vehicle (less a deductible), even if the insured is at fault.

Comprehensive Insurance

Comprehensive insurance protects an insured vehicle against virtually all hazards (e.g., fire, vandalism, hail, or theft) except collision. Deductible coverage is probably the best form in which to purchase this coverage.

BOX 25-2

Aggregate Coverage for Multiple Injuries

Aggregate coverage is based on both the total amount of insurance and the individual coverage under the policy. For example, a car with four occupants is involved in an accident and all 4 of the occupants are injured. The insurance coverage for the vehicle that caused the accident is $100,000/$300,000/$50,000. What liability exposure is there if the injuries to the four occupants are worth $150,000, $100,000, $75,000, and $50,000, respectively?

The answer is $75,000 since the individual policy limit is $100,000, the person with $150,000 of injury is not covered for $50,000. Because the aggregate coverage for the accident is $300,000 and the total cost of injury is $325,000 ($100,000 + $100,000 + $75,000 + $50,000), there is another $25,000 not covered.

Medical Payment Insurance

Medical payment insurance covers the expenses that the insured and passengers incur if injured in an accident (even the ambulance bill) no matter who is responsible for the accident. These benefits are limited in amount.

Uninsured Motorist Insurance

Uninsured motorist coverage protects the insured against personal injury caused by a motorist who has no insurance. It also provides coverage in the event of a hit-and-run accident that results in personal injury caused by an uninsured or unidentified motorist, while riding in someone else's car, or while walking. In some states this coverage can be added to the insurance of an underinsured motorist whose coverage is inadequate to pay for the insured's personal injuries.

An optometrist should not neglect personal insurance needs in favor of those for the practice. Premium costs can be controlled by a knowledgeable purchaser. Higher deductibles for liability coverage and lower collision and comprehensive coverage for older vehicles of reduced value can assist in decreasing premiums. Medical payments coverage will not be necessary if the insured also has health insurance. In addition, discounts may be offered by insurers, usually for the following:

- Low-mileage use of the vehicle
- Safety features (e.g., airbags, anti-lock brakes)
- Anti-theft devices (e.g., alarms, wheel-locking systems, window identification systems)
- Safe driving records and passage of approved driver's education courses
- Good grades achieved by students

Insurers should be asked about discounts for vehicle coverage, especially for younger drivers for whom premiums tend to be high.

Uses

Since individual needs and circumstances vary, trying to predict the insurance coverage appropriate for all persons would be an impossible undertaking. Therefore only the most common use of personal insurance is described.

Health Insurance

Health insurance in general and major medical coverage in particular is most commonly purchased through a group plan because of the reduced cost. The best policies are those that provide virtually unlimited maximums and are offered by large, stable companies. If coverage other than major medical is desired, care should be exercised. Certain limited policies, such as those paying benefits only for certain diseases (cancer, for example), may be duplicates and unnecessary. Probably the biggest decision in this regard comes when the optometrist has reached 65 years of age and is eligible for Medicare; extra insurance may be purchased to "plug the gaps" in Medicare coverage.

Homeowner's Insurance

Homeowner's insurance should be reviewed annually to ensure that the policy limits are adequate, particularly in the event there is a total loss. Since premiums are often paid as part of the monthly mortgage, it is easy to forget about policy details.

Property appreciation and inflation make such an omission a serious mistake.

Familiarity with the homeowner's policy also is necessary to understand the type of eventualities for which there is coverage, the applicable deductibles, and the maximum coverage for each type of loss. Of particular interest are the types of casualty discussed previously: mortgage protection; personal liability; dwelling, unscheduled personal property, and living expense coverage; and scheduled property insurance.

Vehicle Insurance

Most individuals have their first exposure to insurance when they insure an automobile, and during the course of years, the ownership of automobiles (or other vehicles) will result in the contribution of many thousands of dollars for insurance protection. Nevertheless, because of the risk of loss, automobile insurance is an absolute necessity, including uninsured motorist coverage, which is optional in some states.

A long-term proposition, such as vehicle insurance, requires selectivity on the part of the individual seeking coverage. Insurers vary tremendously in terms of coverage offered, cost, renewability, and reputation, and policies should be selected with great care. Vehicle policies generally fall into one of the following two categories.

Family Policies

Insurance protection exists whether the insured is driving his or her vehicle, a vehicle belonging to someone else, or a rented one. These policies also extend protection to members of the household when they drive an insured vehicle and to others who drive the vehicle with permission. Additional coverage may protect members of the household when they drive someone else's vehicle.

Special Policies

Insurance protection is offered as a package at rates less than those of family policies. Benefits automatically include medical payment coverage, death benefits, and uninsured motorist coverage. The addition of comprehensive or collision insurance brings with it personal property coverage and towing coverage. Special policies usually do not pay for injuries that are covered by other insurance.

Family policies that are not markedly more expensive than special policies should be given preference because they will provide some coverage that special policies cannot. Another consideration is how the coverage is purchased: if all casualty insurance—automobile, homeowners, or practice—is purchased from one insurance company, the optometrist with a valid claim has a little more leverage to exert than he or she would otherwise.

Tax Issues

Self-employed optometrists may deduct the premiums paid for health insurance coverage for themselves, their spouses, and dependents (see Chapter 39). In addition, the health insurance premiums purchased by an optometrist for the benefit of employees are deductible as a business expense.

There is no deduction permitted for insurance premiums paid for an individual's private vehicle insurance. Premiums for business vehicles may be deducted as a necessary business expense. The extent of the deduction depends on the extent of the vehicle's use for business purposes (see Chapter 39).

A homeowner cannot deduct the cost of the premiums paid for homeowner's insurance. Uninsured casualty and theft losses may be deducted to the extent they exceed 10% of the homeowner's adjusted gross income and if they are not compensable by insurance. The varied types of insurance coverage needed by a practitioner are summarized in Table 25-6.

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TABLE 25-6

Summary of Business and Personal Insurance Coverage

Type	Purpose
BUSINESS COVERAGE	
Life	
Decreasing term	Security for business loan (assigned to creditor)
Group term	Benefit for employees
Cross or entity purchase term	Payment at death of partner
Disability	
Group or private	Benefit for employees
Office overhead	Payment for fixed operating expenses
Health	
Group or private	Benefit for employees
Liability	
Professional liability	Liability claims against optometrist and employees
Casualty	Loss of office contents from fire or other peril
Worker's compensation	Work-related injuries to employees
Embezzlement	Theft by employees
Premises	Injuries to persons in office or on premises
PERSONAL COVERAGE	
Life	
Term or universal life	Security for family
Disability	
Group or private	Payment for loss of capacity to work
Health	
Group or private	Medical and hospitalization costs
Home	
Decreasing term mortgage rider	Payment of home mortgage at death
Premises	Injuries to persons on the premises
Homeowners	Loss of home and personal effects from casualty
Vehicle	
Liability and collision	Damage to property and injuries to persons
Uninsured motorist	Personal injury from an uninsured driver
Casualty	Vehicle loss or damage due to fire or theft

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