

Foundations of Emergency Medicine

Foundations III: Guided Small Group Experience

Personal Development

Session 13: Financial Wellness II (Insurance and Loans)

❖ Agenda and Learning Objectives

- Case Begins – **Disability Insurance** (15 min)
 - Understand the reasons for needing insurance
 - Review reasons for disability insurance
 - Review the importance of the definition of disability and other provisions in disability insurance policies
 - Develop an understanding of the pros and cons of group versus individual disability insurance policies
- Case Continues – **Life Insurance** (15 min)
 - Review reasons for life insurance
 - Discuss the differences between term life and permanent life insurance
 - Review the concept of layering term life insurance policies
- Case Continues – **Student Loans** (10 min)
 - Understand how to keep your Public Service Loan Forgiveness eligibility
 - Review basic principles regarding loan refinancing
- Case Concludes (5 min)
 - Review Session Teaching Points

❖ Note to Facilitators

- This is a session covering insurance and student loans. We ask that you review the pre-reading suggested to the residents and familiarize yourself with the case guidance before your session. Remember in preparing for this session that these topics are not naturally in our wheelhouse, compared with a topic like working up undifferentiated shock.

❖ Case Begins – Disability Insurance (15 min)

This is a 26-year-old resident, John, in his last year of residency. After constructing a basic financial plan, he has heard that disability insurance is an important product for protecting himself financially. This made John curious about insurance in general, so he's started to do some research.

❖ Question 1: What is insurance, and for what things do you buy it?

- Insurance is a form of risk management one pays for to hedge against the risk of losing an asset.
- You buy insurance for things that cannot be easily replaced with pre-existing assets or your income.

- *Would you buy insurance for a \$15 book you purchased at the store?*
 - No. The cost of replacement, were the book to become lost or damaged, is not a financial hardship. You would not buy insurance for this. You would just repurchase the book.
- *Would you buy insurance for your car?*
 - You may or may not insure your own car. As your car's value drops with age, there may become a point where the cost of replacing your car is not worth paying for insurance.
 - It is elective to insure your own car. For clarification, you are required to carry liability insurance, but this doesn't insure your car, it insures the other parties in an accident.
- *If you own your house, would you buy insurance for your house?*
 - Most of the time, yes. For the majority of people, this is an example of an asset that would be very difficult to replace with any pre-existing assets or income.
 - Of note, if you have a mortgage, you do not technically own your house. Your lender does. They require you to carry homeowner's insurance to insure their asset.

❖ **Question 2: What is disability insurance and is it necessary for most doctors?**

- Disability insurance is used to cover the risk of losing your ability to earn future income.
- *You would pose the same question to this as with other insurance – if I lost this asset could I easily replace it?*
 - If John is, conservatively, making \$250,000 a year and works for 30 years, then that amounts to \$7.5 million in lost income. If John has other assets, other work skills, or independent wealth, then he may not need insurance, or as much of it, but these are exceptions. If he suddenly couldn't work as a physician, he's looking at needing to cover over \$7.5 million in lost lifetime income.
 - Disability insurance is needed for most doctors.

❖ **Question 3a: What properties of disability insurance do I need to look for?**

- **The most important part of the policy is the definition of disability.**
 - Best definition: **Own-occupation, specialty-specific** with no limitations on psychiatric or addiction treatment. This means that if you can't perform your job as an ER physician, then you qualify for disability, even if your disability would still allow you to work in another occupation.
 - There are other looser definitions of disability. While they are associated with less expensive policies, they also are more difficult for you to qualify as disabled. They may require you to work in other capacities.
 - For example, a definition of "any occupation" would mean you're only disabled if you can't perform the duties of *any* occupation, including non-medical occupations, for which you're qualified.
- **Other important features**
 - **Non-cancelable** – the company can't arbitrarily terminate your policy, increase the premiums, or reduce the benefits

- **Guaranteed renewable** – as long as you pay your premiums, your insurer is obligated to continue coverage
- **There are other options you can purchase with your policy. These options are also called riders. Here are a few examples.**
 - **Future Purchase Option**
 - This is a good rider to consider as a resident.
 - This allows you to buy more insurance at a later date without having to submit to a repeat medical review. Your current salary is the limit on the amount of insurance you can buy, so as a resident it's limited. When your salary increases significantly after residency, you are eligible to buy more insurance at that time.
 - **Inflation Protection or Cost of Living Adjustment**
 - This allows for an increase in the benefit over time. For example, if you bought a policy with a \$5000/month benefit in 2005, today after inflation, the effective benefit would only be \$3897/month. This rider increases your benefit over time so that it is not eroded by inflation.
 - **Residual Disability**
 - This covers a partial disability and provides a partial benefit as you recover from your disability. A partial disability would be something that didn't keep you from working at all, but maybe kept you from working full time.
- ❖ **Question 3b: When should I look into buying disability insurance?**
 - Ideally you should have some sort of coverage now, before you accrue any potential medical conditions. When you apply for disability, pre-existing medical conditions may be excluded from your policy and ineligible for any disability benefit, so you want to be covered before you develop any medical conditions that could lead to a future disability.
 - You may already be covered with a group policy in residency. Check with your HR group.
- ❖ **Question 4a: What are the differences between a group policy and an individual policy?**
 - Group Policies
 - Pros
 - They are generally cheaper.
 - You usually do not have to submit for a medical exam, so pre-existing conditions would be already covered.
 - Cons
 - They generally have a weaker definition of disability
 - There are more definitions of disability between “own-occupation, specialty-specific” and “any occupation”. If you have a group policy, check the disability definition and its implications should you become disabled.
 - They are generally not portable. This means if you leave your job, you are no longer covered.

- If you develop a medical condition while in your first job that is not insurable, this lack of portability could make it difficult to find suitable coverage when you change employers.
 - It is not guaranteed that your new employer will have a group policy, or that you will find it sufficient.
 - Individual Policies
 - Pros
 - They have stronger definitions of disability.
 - You can mold the policy to what you specifically want.
 - They are portable, moving with you between jobs.
 - Cons
 - They are more expensive.

❖ **Question 4b: Should I have group or individual disability insurance?**

- Individual policies are most often the stronger policies. The definition of disability is generally better. They are portable, meaning the policy moves with you between jobs, so if you develop medical conditions later in your career that are a future disability risk, then they will be covered.
- Group policies are more affordable and easier to get with pre-existing medical conditions. Unfortunately, they generally can't be brought with you between jobs.
- Say you hurt your back at your first job and later move to your second job that offers no coverage, and then you apply for your own policy. They may insure you, but exclude any back problems from your plan.
- You should check the details of any group policy with your employer to evaluate how good it is and use this to decide whether to opt in, get an individual policy for yourself, or use some combination of the two.
- You can educate yourself further with resources at MD in the Black (www.mdintheblack.com) and The White Coat Investor (www.thewhitecoatinvestor.com).

❖ **Question 5: How do I purchase disability insurance?**

- For group policies through work, look to your HR and Benefits departments.
- For individual policies, you have to go through an independent agent to broker a policy for you. This does not mean you have to have a financial advisor. There is a good list of agents at The White Coat Investor, at <https://www.whitecoatinvestor.com/websites-2/insurance/>

❖ **Case Concludes – Disability Insurance**

Dr. Homans did some research and decided he wanted a disability insurance policy. He has some group insurance automatically with his residency. He has no medical conditions now. He found room in his budget to purchase an individual policy through an insurance agent to cover part of his residency salary. He got an own-occupation, specialty-specific policy with a future purchase option rider so that he could increase his coverage in the future without having to

submit for a re-examination. He decides to review the group policy options with his next job and decide at that time whether to increase his coverage with his new individual policy.

❖ **Case Begins – Life Insurance (15 min)**

Dr. Homans fell in love at the beginning of medical school. Now 7 years later, he's married with a young son. His wife works part-time while their son is young. She plans to go full-time again in the next couple of years when their son is older and after having at least one more child. John wonders if he needs life insurance, so he looks into it.

❖ **Question 1: What is life insurance and should I purchase some?**

- Life insurance financially protects those you leave behind from the loss of your future income in the event of your early death.
- *Should I buy life insurance?*
 - Most likely. Like we discussed with disability insurance, you have to ask in conjunction with your family, could everyone left behind live comfortably and happily were they to lose your future income?
 - What factors would be important to consider when evaluating this?
 - Current family assets
 - Family help
 - Mrs. Homans income when working full-time
 - Childcare needs if Mrs. Homans is working full-time
 - Future education savings for the children
 - Future housing costs
- As would be the case with most people, the Homans family decides they do need life insurance. Even if Mrs. Homans worked full-time again, it would still be very tight meeting the financial goals for the family for housing, education, and childcare. They run numbers based on projected future expenses and Mrs. Homans's future earnings to figure out how much life insurance they'll purchase. They decide to buy \$2 million in life insurance for now. When they research what to purchase, they see that there are two types of life insurance – term and permanent life.

❖ **Question 2a: What is term life insurance?**

- Term life insurance is a pure insurance product. You pay your premium, and in return, if you die, your family gets the death benefit agreed upon in the policy. You buy a policy for a set number of years – the term. For example, if you buy a 20 year term policy for \$1 million this year, then if you die anytime in the next 20 years, your family/dependents get the \$1 million.

❖ **Question 2b: What is permanent life insurance?**

- This includes products like whole life, universal life, variable life, etc.

- They have a permanent death benefit, meaning your family gets paid when you die no matter what. There is no term.
- They also have an investment component. As you pay your premiums over the years on these policies, that money builds up a cash value in the policy in addition to covering your death benefit. That cash value can then be invested in the policy over time.

❖ **Question 3: Which should I get?**

- The default answer is term life.
- *Remember the point of insurance?*
 - To insure against the loss of an asset you cannot replace.
 - You do not need a permanent death benefit for insurance purposes. You just need insurance until you've been able to grow your nest egg enough for your family to be okay if you die early.
 - Examples:
 - If you die at 40, your family has lost lots of future income from your work and you don't have a large nest egg yet, so they're more likely to need insurance to cover for this risk.
 - If you die at 75 and you've done a good job saving, you will have millions of dollars in your investment/retirement accounts for your significant other/heirs. Your children will be adult age and independent. People would be fine living off your assets. There's nothing to insure anymore.
- *What are some features espoused with permanent life policies?*
 - They have an investment component
 - This true, but there are other savings options with lower costs of investment that you should utilize before putting money into a permanent life policy. These include your 401(k)'s, 403(b)'s, backdoor Roth-IRA's, 529's for college saving, 457's, your health savings account in your health plan, taxable investment accounts, and even paying down your student loans.
 - They offer tax protection on your estate
 - You likely won't need the tax protection espoused with permanent life for your heirs. The estate tax, or death tax, doesn't kick in unless you're leaving more than \$5.49 million as an individual or \$10.98 million as a couple, as of 2017. For most physicians this won't be needed.

❖ **Question 3: How long of a term should I purchase? How much?**

- This depends on your family's financial plan. You do not need life insurance after you project your family to be financially independent and able to weather your premature death. For someone graduating residency, a 30-year term is a good start.
- With term policies, you can actually buy more than one as your needs change. For example, let's say Dr. Homans is 30 years old, and does the math on what his family needs to cover his wife, son, and future 2nd child. He decides they need \$2 million in coverage. At age 50, he still

needs coverage, but not as much because he'll have a growing retirement nest egg his family can use. He only thinks he'll need \$1 million in coverage at that point.

- You can actually “layer” separate policies. Dr. Homans could buy one 20-year term life insurance policy, and a 2nd 30-year term policy for \$1 million each.
 - Effectively, this covers Dr. Homans for \$2 million to age 50, and \$1 million from age 50 to 60.
- Here's an example of how this would look, courtesy of MD in the Black, a source for resident financial education.

	Term	Death Benefit
Policy 1	30 years	\$1 million
Policy 2	20 years	\$1 million

Age	30-34	35-39	40-44	45-49	50-54	55-59	60-64
Policy Years	1-5	6-10	11-15	16-20	21-25	26-30	31-35
Policy 1							
Policy 2							
Total Death Benefit	\$2M	\$2M	\$2M	\$2M	\$1M	\$1M	\$0

❖ Case Continues – Student Loans (10 min)

Dr. Homans has student loans. He has \$150,000 in federal loan debt that he has been paying through the Public Service Loan Forgiveness (PSLF) program while in residency. He has an additional \$100,000 in private loans that he deferred in residency. The interest rate on these private loans is 7%.

- **Question 1: Are there any specific action items moving forward on the PSLF loans?**
 - Homans must continue to make payments on these loans.
 - He should not pay more than his monthly bill.

- The benefit of PSLF is having a remaining loan balance forgiven at the end of 10 years, so you do not want to overpay these loans if planning for PSLF.
- Homans has to continue to work for a qualifying institution. This will generally be the government or a non-profit 501©3 organization. See studentaid.ed.gov for more information.
- He must continue to communicate with the government regarding his employer and stay vigilant monitoring that his payments are being correctly logged.
 - He needs to submit an Employment Certification form annually or when changing employers.
 - He needs to make sure his payments are being logged correctly by looking at his FedLoan Servicing account periodically.
- After Dr. Homans gets a job and knows his upcoming income, he needs to double check his monthly payments and verify he's not on track to overpay his PSLF loans.
 - For example, if Dr. Homans is using RePAYE, he'll continue to owe 10% of discretionary income each month, but this could balloon his monthly payment enough to where he'll pay his loan off before he's eligible to use PSLF (i.e. he'll pay his loan off before 10 years).
 - The other common repayment program, PAYE, caps your monthly payment at a level where you will not overpay your eligible PSLF loans by the end of the 10 years, so this is not an issue.
- If Dr. Homans finds he is no longer going to qualify for PSLF due to his employment, or if he finds he'll pay his loans off too fast on his repayment plan to still qualify for any forgiveness, then he'll need to start treating these loans like any other loan debt. He can pay them off at any speed he wishes.

❖ **Question 2: Are there any specific action items on Dr. Homans's private loans?**

- Check the interest rates and compare them to other offers
- If there's a substantially better rate, it may be worth refinancing

❖ **Question 3a: What's the difference between a fixed interest rate and variable interest rate loan?**

- Variable rate loans
 - The interest rates can change over time. There are often limits on how much they can annually change, and how much they can change in total. This depends on the terms of the individual loan.
- Fixed rate loans
 - The interest rates do not change over time.

❖ **Question 3b: Which type of loan do I get?**

- Variable rate loans
 - The initial rate is often lower than a fixed rate loan, but the longer you hold the loan, the more risk your interest rate could go up.

- These are reasonable if you are planning to pay your loans off on an aggressive schedule. There will be less risk of your interest rate rising over time and backfiring on you.
- Fixed rate loans
 - The initial rate is often higher than a variable rate loan, but the rate is locked in.
 - If you're not trying to pay your loan off early, or you have a repayment plan that will take many years, then a fixed rate may be more ideal.

❖ Question 4: How fast do I pay off my loans?

- PSLF loans
 - Do not overpay or pay off early. Just continue working for qualifying institutions and make your monthly payments.
- Non-PSLF loans
 - First make sure you're filling your workplace retirement account to the match and that you do not have other outstanding high interest rate debt (i.e. credit card debt).
 - The speed you pay down your loans depends on two factors:
 - Interest Rates
 - If you have a loan with a 5% interest rate, when comparing it to investment options, think of it like an investment with a guaranteed 5% rate of return. If the loan has a higher rate, pay it down, if the investment has a higher projected rate of return, then invest.
 - Personal preferences
 - If there's not a big difference in the interest rates, you may just prefer to free yourself of loan debt. Paying off a loan is one less monthly debt obligation.

❖ Conclusion

Dr. Homans plans to keep paying his monthly loan bill for his PSLF loans and verified that he's working for a qualifying institution. He refinanced his student loans to a 4% variable rate loan. He wants to pay extra on these loans every month. He thinks he'll pay them off over the next 3-4 years. He knows he could invest the same amount in the stock market and over the lifetime of his investment likely get a higher rate of return. He decides that the 4% "return" by paying his student loan is better for him because he values the financial freedom of eliminating a debt early and the psychological benefit of getting rid of one of his loans.

❖ Summary

- **Insurance**
 - Insurance is a form of risk management. You pay for someone to insure you against the risk of losing an asset you cannot easily replace.
 - You do not buy insurance for easily replaceable assets.
- **Disability Insurance**

- Disability insurance insures against the risk of losing your ability to earn future income. This is a significantly difficult asset to replace for most people.
- You should review options with your future employer and evaluate the strength of their plans and compare this to the coverage you could have from an individual disability insurance policy.
- **Life Insurance**
 - Life insurance also insures against the loss of your future income, but for your family and dependents.
 - Term-life insurance is a pure insurance product and likely the best product for the circumstances of most physicians.
- **Student Loans**
 - For loans in the PSLF program, keep paying your monthly bills but don't pay off your loan early. Make sure you are continuing to work for a qualifying employer.
 - For other loans, stay abreast of the loan market and available interest rates. Take advantage if current rates are lower than the rates on your current loans.
 - Variable interest rate loans offer lower initial interest rates, but have the risk of increasing their rates over the life of the loan. They are a reasonable option for people planning to pay down their loans faster.
 - Fixed interest rate loans have slightly higher rates than variable interest rate loans, but they do not have a risk of increasing interest rates in the future. They are a reasonable option for someone paying off their loans over longer terms.

❖ **Facilitator Background Information**

Residents moving into their first attending jobs will see a large increase in their salaries relative to what they are used to in the past. This also creates a big jump in the number of financial issues they'll be asked to understand in a relatively short amount of time. As an overall commitment to improving physician wellness, our aim with our financial units in Foundations is to give graduating residents some basic financial knowledge and encourage them to keep learning on their own so they can have a strong approach to saving, paying down debt, budgeting, and evaluating insurance. Having thought about these issues before getting an attending paycheck or buying large ticket items will hopefully put them on a path of financial responsibility, improve their overall happiness, and keep more future opportunities open to them.

We are asking that you review the guide above a few times in advance, particularly if you do not have a lot of experience in these topics. We also ask that you read the suggested pre-reading given to the residents. We are not as prepared by default for topics such as these when compared to other clinical topics, like how to approach a pulmonary embolus work-up.

The first financial session concerned budgeting, investment accounts, and an approach to real estate. In this session our goal is to give senior residents a basic approach to insurance.

Insurance is a product you buy as a hedge against the risk of losing a difficult to replace asset. When evaluating insurance, we want the residents to apply the basic question “If I lost this asset, could I manage replacing it?” as a way to decide whether they need insurance or not.

We are addressing disability and life insurance specifically. Most resident physicians will need disability insurance coverage of some sort. Here we are reviewing how disability is defined for the purposes of receiving disability insurance benefits. We are reviewing some of the important add-on’s, or riders, that you can get with a disability insurance policy. Finally we are reviewing the differences between group and individual disability insurance policies, specifically the pros and cons of each.

For life insurance, we take the stance that term life insurance is going to be the appropriate life insurance product for most physicians, especially at this stage in their careers. We are reviewing how term life insurance policies work and reviewing the concept of layering different term policies to allow a gradual reduction in the amount of life insurance coverage as a person advances in their career. We are reviewing permanent life policies as well, since these are common alternatives to term life. We recommend term life as the default best product for a few reasons. Again, insurance is used to hedge against the risk of an asset you can’t replace. In a physician’s early career, they have not accrued enough assets to cover their family and heirs financially in the event of their early death, but in late career, we expect physicians to have accrued enough assets so that their families will be fine on what has been saved, obviating the need to purchase insurance. Often the tax benefit of permanent life policies is espoused, particularly in regard to tax protection at death for your estate, however, the amount of money the average emergency physician will have in net worth at death is unlikely to exceed the amount at which the estate tax kicks in. Finally, investment options are generally more limited and with higher fees within these policies, so we recommend young attendings use other tax advantaged savings vehicles first. Permanent life policies may have potential benefits for a small subset of physicians, but the scope of this is beyond the time allotted for this session.

Finally, we want to review student loans in a narrow scope directed to the senior resident. Whether or not they are pursuing Public Service Loan Forgiveness is now moot. If they haven’t been doing the program in residency, then there is by now no future value in pursuing this, unless someone is considering a protracted addition to their training. We are reviewing what the senior resident needs to do to maintain eligibility in the program. We are also reviewing the basics to loan refinancing and the differences between variable interest rate and fixed interest rate loans.

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