



# Important Information for Those Completing Residency

## Meet Brendan: Orthopaedic Surgeon

Brendan is in his last year of residency in orthopaedics. He dreams of working in a large city hospital near the town where he grew up. This last year will be a busy one for him — taking his boards, securing employment, finding a place to live, moving his family, and planning a graduation trip.

### With so much on his plate, why should Brendan think about Disability Income (DI) protection now?

Brendan thought he was too young to think about DI protection. He was surprised to learn that in his thirties, he's 2.3 times more likely to suffer a disability than to die.<sup>1</sup>

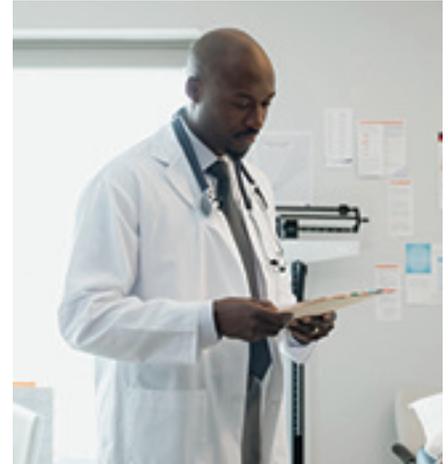
### Why buy now?

There are several benefits to buying Individual Disability Income (IDI) protection now rather than down the road:

- **Cost** — The cost of IDI insurance is age-based. He can lock in a lower rate now by buying while he's still young.
- **Good health** — It's wise for Brendan to leverage his good health status now. If he delays applying and his health changes, his ability to obtain IDI and his cost may be affected, or certain health conditions may be excluded from coverage.
- **Early-career impact** — Disability in the early stages of a career is particularly problematic as this is when student loan debt is at its highest and income is just beginning to grow.
- **No proof of earnings required** — Brendan can qualify for a special benefit amount based on the projected starting salary for his specialty — without having to provide actual proof of income.

Brendan chats with fellow residents and experienced physicians and determines he has several options:

- Association Plan
- Group Long-Term Disability
- Individual Disability Income



## Brendan

**Age:** 34

**Occupation:** Orthopaedic Surgeon completing residency

**Target Employer:** Large city hospital

**Starting Salary:** \$304,000 (avg.)

**Student Loan Debt:** \$173,000 (\$1,991/month)<sup>2</sup>

## Evaluating Brendan's choices

**Association Plan** — A very basic plan is available through a state medical association. Brendan meets with an insurance specialist and finds it isn't as strong as some of his other options.

**Group Long-Term Disability (Group LTD)** — Brendan has learned that many larger hospitals provide Group LTD at no cost to employees. A typical plan provides:

- Income replacement benefits of 60% of pre-disability base salary
- Benefits cap of \$10,000 per month

**Individual Disability Income Insurance (IDI)** — Quite a few of the physicians he's met have IDI and suggest Brendan look into it.

Advantages include:

- **Flexibility**
  - Wide range of features and options lets him customize his coverage
  - Variable compensation (eg., deferred compensation, regular incentive bonuses, etc.) is covered. Group LTD plans typically cover base salary only.
- **Portability** — He can take the coverage with him each time he changes employers (not usually the case with Group LTD plans).
- **Tax-free benefits** — Brendan would pay the IDI premium himself with after-tax dollars, thus benefits received from his coverage would be non-taxable. Benefits from his Group LTD plan, for which his employer pays, would be taxable.
- **Level or graded premium payment options** — To enhance IDI's affordability, Brendan can choose to make lower payments initially with premiums increasing on a fixed scale as he ages (graded). Or he can opt for one uniform (level) monthly premium.

## Coverage 'Gap' with typical group LTD

The Group LTD plans at the hospitals Brendan has targeted provide 60% income replacement to a maximum of \$10,000 per month in benefits. Using an average orthopaedic surgeon starting salary to understand how Group LTD would work in his case, he is surprised by two findings:

- **When 60% isn't 60%**

A typical orthopaedic surgeon would be earning \$25,333 a month. Even though 60% of that salary would be \$15,200, the plan's benefits cap would result in a benefits maximum of \$10,000 per month. So instead of income replacement of 60%, the actual pre-tax replacement percentage is 39%. And, as his salary increases, that percentage of income replacement would, in fact, decrease.
- **Tax bite**

Because the Group LTD premiums would be paid by the employer, benefits from the plan would be taxable. Thus the \$120,000 per year maximum benefit (\$10,000/month) would actually be \$90,000/year or less.<sup>3</sup>

**The time to buy IDI is now. Call today for a quote.**

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<sup>1</sup> Commissioners 1985 Disability Table and 1980 CSO Mortality Table.

<sup>2</sup> Assumes ten-year level repayment plan, interest rate of 6.8% on all loans.

<sup>3</sup> Assumes effective tax rate of 25%.

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