

Overhead Expense Product Overview

Overhead Expense (OE) insurance is a reimbursement policy that pays the fixed overhead of your practice during times of disability. This is not a substitute for an Individual Disability Income policy, which is used to cover personal expenses (mortgage, children's tuition, etc.) during periods of disability. Attorneys in private practice and small group practices should consider Overhead Expense Insurance.

Why should you consider OE for your practice?

1. To ensure your ability to continue paying business expenses if your revenues decrease or stop as the result of a disability and you plan to return to your practice upon recovery.
2. If you are forced to close your practice due to a disability, OE benefits can be used to pay liabilities for which you have an ongoing contractual obligation (i.e., office space lease, business loan payments).
3. To protect your take home pay during periods of a short-term disability. When revenues drop, your income/profit will be reduced or eliminated. Using OE to pay fixed overhead (instead of accounts receivable) may allow you to continue drawing some income out of the business while totally disabled.
4. If your disability results in the decision to sell your practice, an OE policy can be used to pay your fixed expenses while you find a buyer and the contract is negotiated.
5. If you have partners, an unfair burden can be placed on a working partner(s) as a result of a disability. If a partner becomes disabled, the working partners have to pay his/her share of office expenses plus any salary guaranteed under the firm salary continuation agreement, out of their production. While this is OK for short-term absences like vacations, it may not be possible or at the very least acceptable during a prolonged absence.

Example 1:

If the disabled partner has a specialty that is unique to the firm, the working partners may lack the expertise to properly advise the disabled partner's clients and be forced to refer them to another firm. Therefore, the revenue from the disabled partner's clients is lost but his/her share of the overhead still has to be paid. Where would the money come from?

Example 2:

One partner in a 4 attorney firm is totally disabled. Each partners 25% share of the office overhead is \$15,000 per month. The firm's salary continuation agreement states the disabled partner will be paid his/her normal salary (\$10,000 per month) during the first 6 months of disability. The 3 remaining partners must increase their production by \$5,000 per month EACH to pay for the disabled partners share of overhead + \$3,333 per month EACH to pay for the disabled partners salary. Assuming all 3 partners are working full-time, where is the time going to come from to produce this extra revenue?

In both examples above, if the disabled partner had an Overhead Expense policy to pay his/her share of office expenses, it would reduce or eliminate the burden on the working partners.

Taxation of OE premiums and benefits

Premiums for OE insurance are **deductible as a business expense**, whether you file your income taxes as a sole proprietor, partnership, Sub Chapter S Corporation, or C Corporation.

Benefits from OE insurance are taxable as income. However, if the benefits are used to pay deductible business expenses, income tax is NOT payable on the benefits.

The OE program includes:

1. A 10% premium discount** because you are an association member
2. Premiums and benefits are guaranteed not to change until age 65 (even if you leave the association)
3. The definition of total disability is "Your-Own Occupation to age 65". If you are deemed totally disabled from your occupation, it is your choice, not the insurance company's, to work in another occupation.
4. Residual rider, which pays the difference between your collections and fixed expenses, if you experience a partial disability and loss of income
5. Elimination (waiting) periods of 60 or 90 days
6. Benefit Period of 12, 18*, or 24* months
7. Coverage may be available on a **Simplified Issue** basis. For details of the Simplified Issue Program, close this document and then click the "What is Simplified Issue?" link, located under *Additional pertinent articles and/or program information*.

For a personalized premium quote and complete summary of policy benefits, including the actual policy definitions, return to the home page and click on the **Request a Quote** button or call Disability Specialists, Inc. at (888) 279-8348 (7:00 am – 4:00 pm Mountain Time).

*Benefit Periods 18 and 24 months require full medical underwriting

**Discount not available in CA, CT, FL, NY, OH, or PA