EMPLOYER-SPONSORED INSURANCE: THE EMPLOYER-INSURER PARTNERSHIP FOR FINANCIAL SECURITY

EXECUTIVE SUMMARY

Employer-sponsored insurance benefits are a distinct and integral part of America's workplace. By offering solutions to life's challenges and helping to manage uncertainty, employer-sponsored insurance raises living standards for families and ensures economic stability for the country as a whole. It is important that group insurance be available to as many working Americans as possible, and that participation be maximized. An efficient regulatory process and sound public policy can support an environment where products are affordable and widely available through the workplace, associations and other channels. The U.S. federal government has recognized this and supports such an environment. Over time, U.S. tax policy has strengthened the incentive for employers to provide workplace benefits through favorable tax treatment. It is essential that current tax treatment be maintained. Additionally, continued efforts to educate both employers and employees about the importance and affordability of employer-sponsored insurance will help ensure the financial well-being of families.

Employer-sponsored insurance is the most efficient and cost-effective way to provide a wide range of products to the greatest number of people. In fact, most Americans purchase life insurance coverage through their workplace. Life insurers play a key role in ensuring the financial security of American families and are the leading providers of workplace benefits. In the absence of employer-sponsored insurance, poverty in the U.S. would very likely be greater than it is today, placing an even greater burden on state government.

The voluntary employer-based system has served Americans well and continues to provide protection against financial risk. Specifically, in 2013:

- life insurance was available to 75% of full-time workers through their employers. Of those, 98% participated in the offered plan.
- of those employees offered disability income coverage, participation was 98% for short-term disability (STD) benefits and 97% for long-term disability (LTD) benefits.
- dental insurance was available to 57% of full-time workers through their employers. Of those employees, 81% participated in the offered plan. In total, 53 million full-time workers had dental insurance through their workplace.
- vision insurance was available to 32% of full-time workers through their employers. Of those, 80% participated in the offered plan. In total, 29.4 million full-time workers had vision insurance through their workplace.

In an uncertain economy, it is particularly important that working Americans be protected from financial strain. In the absence of employer-sponsored plans and convenient venue provided by employers, many people could not afford or may not seek coverage. For these reasons, *it is critical that group insurance filings be reviewed in a timely manner and that significant flexibility and variability be permitted to accommodate the unique needs of the group insurance marketplace*.

EMPLOYER-SPONSORED INSURANCE: THE EMPLOYER-INSURER PARTNERSHIP FOR FINANCIAL SECURITY[1]

I. History of Employer-Sponsored Insurance

Employer-sponsored insurance raises living standards for American families and ensures economic stability for the country as a whole. It has been an integral part of America's workplace since colonial times, offering solutions to life's challenges and helping manage uncertainty faced by working families.[2] Early in its history, employer-sponsored insurance mostly focused on simple pension plans. It has evolved considerably and now includes life insurance, disability income insurance, retirement savings, dental and vision insurance, and supplementary coverage. The voluntary employer-based system has served Americans well and continues to provide protection against financial risk.

It is important that group insurance be available to as many working Americans as possible, and that participation be maximized. An efficient regulatory process and sound public policy can support an environment where products are affordable and widely available through the workplace, associations and other channels. The U.S. federal government has recognized this and supports such an environment. Over time, U.S. tax policy has strengthened the incentive for employers to provide workplace benefits through favorable tax treatment. It is essential that current tax treatment be maintained. Additionally, continued efforts to educate both employers and employees about the importance and affordability of employer-sponsored insurance will help ensure the financial well-being of families.

II. The Employer-Employee Partnership – A Private Sector Solution

Employer-sponsored insurance, individual insurance, and government programs are complementary, each playing an important role in ensuring the financial security of American families. Employer-sponsored insurance is a particularly efficient and cost-effective way to provide a wide range of products to the greatest number of people. In fact, a recent survey found that 76 percent of all American workers obtain most of their financial products through their employer.[3] Because life insurers supply workplace benefit products, they play a key role in ensuring the financial security and well-being of families.

Employer-sponsored insurance is appealing because premiums are typically more competitive than individual insurance premiums and obtaining coverage is easy and convenient. Premiums are lower because coverage is usually term rather than permanent, and because administrative, operational and sales costs are lower than they are for individual plans. These savings are passed on to policyholders. Many employers also offer subsidies, with some paying 100 percent of premiums and others sharing the cost with their employees or offering discounts.

---

[1] Prepared by: Andrew Melnyk, Ph.D., Vice President, Research, American Council of Life Insurers (andrewmelnyk@acli.com).

[2] For example: the Plymouth Colony settlers' military retirement program, 1636; Gallatin Glassworks' profit-sharing plan, 1797; American Express private employer pension plan, 1875; Montgomery Ward's group health, life, and accident insurance program, 1910; and Baylor University Hospital's formalized prepaid group hospitalization plan, 1929 (from: Employee Benefit Research Institute (EBRI), Databook, 2013).

[3] MetLife, "Welfare Benefit Funding: Retiree Life Solutions", 2013. (see: https://www.metlife.com/assets/institutional/services/cbf/welfare/12124056_ValueERPaidRetLife_SS_exp1213.pdf)

Employers conduct extensive research when choosing plans which best meet the needs of their employees. Providers offer a range of educational information and access to knowledgeable professionals to help guide the process. The result is a system where: coverage is affordable; many more people are protected than would otherwise be the case, particularly lower and middle-income families; and, coupled with individual insurance and government programs, the wellbeing and security of American families is maximized.

Americans understand and appreciate the value of insurance provided through the workplace, with 90 percent agreeing that it is important for employers to offer benefits even if the employee pays most or all of the cost.[4] Employees themselves concur, with a majority being willing to pay more in order to have a choice of benefits that best meet their needs.[5] In fact, according to the U.S. Bureau of Labor Statistics, when offered an opportunity to participate in an employer-sponsored benefit, regardless of what the benefit is, the vast majority of workers choose to participate.[6]

In an uncertain economy it is particularly important that working Americans be protected from the financial strain caused by the death of an income-earner, illness, or disability. In the absence of employer-sponsored plans and the convenient venue provided by employers, many people could not afford or simply would not seek coverage, exposing themselves and their families to financial ruin. Additionally, without the opportunity to actively participate in a retirement plan, many more people would be ill-prepared for retirement. In effect, employer-sponsored insurance is very much a *public good*.

III. Types of Employer-Sponsored Benefits

In addition to major medical insurance, employers commonly offer a variety of benefits, such as various forms of group life insurance, short-term disability income insurance, long-term disability income insurance, dental insurance, vision insurance, defined benefit and defined contribution plans, supplemental insurance, and many other types of ancillary benefits. This section briefly describes some of these benefits.

A. Life Insurance

Life insurance enables families to take control of their financial future when a loved one dies. Unlike individual life insurance, employer-sponsored life insurance guarantees a certain level of coverage with no medical examination prior to approval and charges all employees within a group a similar premium. Because life insurance provided through an employer is usually term, when an employee leaves his or her job coverage is terminated, though most states require a conversion privilege which allows employees to convert their group coverage into a permanent policy so that they can retain coverage. Many plans offer the option of continuing coverage well into retirement, providing insurance to cover an employee's last illness and final expenses. Some employers also offer universal life insurance. Universal life is a type of permanent insurance where premium payments above the current cost of insurance are credited to the cash value of the policy. Universal life can provide affordable, guaranteed protection while allowing the employee to build cash value.

---

[4] MetLife, Study of Employee Benefits Trends, 2009. http://whymetlife.com/trends/downloads/MetLife_EBTS09.pdf.
[5] MetLife, "Do Your Employees Recommend Your Company as a Great Place to Work?", 2013. (see: https://benefittrends.metlife.com/docs/default-source/ebts-downloads---insights-to-go/great_workplaces_metlife_2013.pdf?sfvrsn=2).
[6] From: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2012.

While most employer-sponsored insurance contracts provide a lump sum death benefit to a designated beneficiary, many also offer survivor income benefits in the form of monthly or periodic payments to a deceased employee's spouse or other named beneficiary. Some also continue payments to dependent children in the event of that spouse's death.

Availability of benefits and participation are key factors in financially protecting American families when an income earner dies. In 2013, life insurance was available to 75 percent of full-time workers through their employers. Of those employees offered coverage, 98 percent participated (see figure 1).[7] In total, 84.4 million full-time employees have life insurance through their employer (see figure 2). Including group life insurance provided through associations and churches, in 2012 there were a total of 106 million certificates (policies) in-force in the United States with a face amount of $8.1 trillion, representing 39 percent of all in-force life insurance policies. In 2012, life insurers paid a total of $20 billion to beneficiaries of group life insurance contracts, or 31 percent of total death payments. [8,9]

B. Disability Income Insurance

Disability can result in prolonged unemployment and, in many instances, can drive a family into poverty.[10] At the very least, disability is disruptive and many lead to a significantly lower household income. According to a recent survey, 95 percent of adults felt they would need to make lifestyle changes if a member of their household lost his or her income.[11]

Disability occurs much more frequently than most people realize and families are often ill-prepared. In fact, nine out of 10 workers grossly underestimates their chance of being disabled.[12] Some facts to consider:

- Over 56.7 million people in the U.S. had a disability in 2010 (18.7 percent of the population).[13]
- About 38.3 million people in the U.S. had a *severe disability* (12.6 percent of the population).[14]
- About 29.5 million *working age adults* (between age 21 and 64) had a disability. That comes out to 16.6 percent of all working-age Americans. [15]
- One out of every four 20 year-olds in the U.S. will become disabled and unable to work before they reach the age of 67.[16]

---

[7] From: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2013. Does not include U.S. Federal Government employees.
[8] American Council of Life Insurers, Life Insurers Fact Book 2012. http://www.acli.com/Tools/Industry%20Facts/Life%20Insurers%20Fact%20Book/Documents/7_FB_2012_Chapter7_web.pdf.
[9] American Council of Life Insurers, Life Insurers Fact Book 2012., (see: http://www.acli.com/Tools/Industry%20Facts/Life%20Insurers%20Fact%20Book/Documents/2012_chpt5_Expenditures_revised_020813.pdf.
[10] Rank, Mark R.; Hirschl, Thomas A., "Estimating the Life Course Dynamics of Asset Poverty", presented at the *Panel Study of Income Dynamics Conference on Pensions, Private Accounts, and Retirement Savings over the Life Course*, University of Michigan, 1999.
[11] The Hartford, Benefit Landscape Study, 2010 (see: http://blogs.courant.com/connecticut_insurance/The%20Hartford's%202010%20Benefit%20Landscape%20Survey.pdf).
[12] Council for Disability Awareness, Disability Awareness Survey, 2007.
[13] U.S. Department of Commerce, Bureau of the Census, Americans With Disabilities, 2010, July 2012.
[14] U.S. Department of Commerce, Bureau of the Census, Americans With Disabilities, 2010, July 2012.
[15] U.S. Department of Commerce, Bureau of the Census, American Community Survey, 2011.
[16] See: Social Security Administration, "Basic Facts", February 7, 2013.

- In the United States, someone suffers a disabling accident every 2 seconds.[17]
- According to one report, in a typical year over 28 percent of bankruptcies can be *directly* attributed to injuries and illnesses.[18]
- Twenty-three percent of people with a disability live in poverty, compared to 15 percent of people without a disability.[19]
- Seventy-seven percent of working Americans report that they would suffer great or moderate financial hardship if they were unable to work for three months.[20]
- According to the Social Security Administration, in 2012 there were 2,820,812 applications for worker-disabled insurance. Of those applications, only 979,973 people (35 percent) were awarded benefits.
- About 95 percent of disabling accidents and illnesses are not work-related and are not covered by workers compensation.[21]

Disability income insurance (or DI) is frequently offered as part of employee group benefits and is distinct from medical insurance. It encompasses short-term disability benefits (STD) and long-term disability benefits (LTD). DI protects an employee by replacing a portion of their earnings if they are injured, become ill, or develop a condition that results in a disability. STD covers a percentage of an employee's salary with payments starting after all sick leave is exhausted. The duration of benefits vary, but typically last 6 months. LTD protects a worker from catastrophic illness or injury and will usually provide payments until age 65. A typical policy pays at least half of a covered employee's salary up to a specified limit. Insurers limit the amount of disability income coverage they sell to an applicant, usually replacing no more than 65 percent of earned income. Limits are intended to minimize moral hazard. Coverage beyond this amount provides little incentive for a disabled insured to return to work and, as a result, recovery is delayed or does not occur at all.[22]

Some DI policies also cover the cost of job training if a worker can no longer perform his or her current occupation, or workspace modifications. Although individual long-term disability policies can be purchased outside of the workplace, they are usually more costly than group policies and are often beyond the reach of low-income, and even many middle-income, workers.[23]

According to the U.S. Bureau of Labor Statistics, in 2013 STD coverage was available to 44 percent of full-time workers, and LTD coverage was available to 42 percent. Of those full-time workers offered disability income insurance, participation was 98 percent for STD and 97 percent for LTD (see figure 1).[24] In total, 49.5 million full-time workers had STD coverage through their jobs, and 46.8 million had LTD coverage (see figure 2). In 2011, insurers paid a total of $12 billion dollars in group disability benefits.[25]

---

[17] National Safety Council, Injury Facts, 2004.
[18] Himmelstein, David U.; Warren, Elizabeth; Thorne, Deborah; Woolhandler, Steffie, "Illness and Injury as Contributors to Bankruptcy", *Health Affairs*, February 2005. Based on 2001 data.
[19] U.S. Department of Commerce, Bureau of the Census, Americans With Disabilities, 2010, July 2012.
[20] Consumer Federation of America and Unum, "Employee Knowledge and Attitudes about Employer-Provided Disability Insurance", 2012.
[21] Council for Disability Awareness, Long-Term Disability Claims Review, 2012. (as reported by: Consumer Federation of America and Unum, "Employer-sponsored Disability Insurance: The Beneficiary's Perspective", 2013).
[22] See: Black, Kenneth; Skipper, Harold D., Life and Health Insurance, 13th edition, 2000.
[23] From: Consumer Federation of America and Unum, "Employer-Sponsored Disability Insurance: The Beneficiary's Perspective", 2013, p. 2.
[24] From: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2013.
[25] ACLI tabulations of Accident and Health Policy Experience Exhibit data, used by permission.

C. Dental and Vision Insurance

Dental health is an important component of overall well-being. In fact, the federal government deems dental health sufficiently important to include pediatric dental insurance in the Patient Protection and Affordable Care Act. Recent clinical studies support the importance of dental health. Several studies have found that dental and gum disease may be a potential risk factor for cardiovascular disease, stroke, bacterial pneumonia, low birth weight, diabetes complications, and osteoporosis.[26] Routine dental care can help prevent some of these conditions.

Dental insurance is designed to pay a portion of the costs associated with dental care, with about 97 percent of dental benefits being provided through policies that specialize in this coverage and that are entirely separate from medical policies. Additionally, dental insurance deductibles are typically much lower and benefits much higher than they are for medical insurance. Typically, dental plans offer comprehensive preventive benefits and partly cover many major dental expenses, such as crowns and root canals. Research has shown that people with insurance are much more likely to routinely visit their dentist for preventative care than are those without insurance.

In 2013, dental insurance was available to 57 percent of full-time workers. Of those, 81 percent participated in the offered plan.[27] In total, 53.0 million full-time workers had dental insurance through their workplace.

Vision insurance provides coverage for services rendered by eye care professionals. Typical plans cover annual eye exams and provide partial or full coverage for corrective lenses. In 2013, a vision plan was available to 32 percent of full-time workers. Of those, 80 percent those participated in the plan.[28] In total, 29.4 million full-time employees participated in group vision insurance.

D. Supplemental Benefits

While core employer-sponsored benefits such as major medical insurance, life insurance, STD, LTD, and dental insurance are often subsidized by the employer and are substantially more affordable than individual policies, for some families they may not provide sufficient coverage. Supplemental benefit products build on basic coverage and are usually sold at group rates. Many group plans offer employees the option to buy additional types of coverage such as cancer insurance, critical illness, dependent life insurance coverage, legal insurance, accidental death and dismemberment, or various 'riders' such as accelerated death benefits, or a 'waive of premium' rider. A rider is an attachment to a life insurance policy that adds benefits to basic plans, allowing employers to tailor products to their individual needs.

Supplemental coverage can play a key role in maintaining financial well-being. For example, according to one study 62.1 percent of all personal bankruptcies in the U.S are attributable in some significant way to medical expenses.[29] Some supplemental benefits are designed to offset employees' out-of-pocket and other miscellaneous medical expenses, such as ambulance transportation and medical supplies. Others may even cover experimental treatments for late stage cancer. Cancer treatment in particular can involve sophisticated and costly techniques, machinery, and medicine.

---

[26] Babu, N. Chaitanya; Gomes, Andrea Joan, "Systemic Manifestations of Oral Diseases", *Journal of Oral and Maxillofacial Pathologies*, May-August 2011, pp. 144-147.
[27] From: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2013.
[28] From: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2013.
[29] Himmelstein, David U.; Thorne, Deborah; Warren, Elizabeth; Woolhandler, Steffie, "Medical Bankruptcy in the United States, 2007: Results of a national Study", *The American Journal of Medicine* , vol. XX, no. X, 2009, pp. 1-6.

E. Workplace Retirement Benefits

Life insurers work with employers to create retirement savings options and to provide workers with lifetime income in retirement. Employer-sponsored retirement plans such as traditional defined-benefit (DB) pensions and defined contribution (DC) plans, including 401(k)s, 403(b)s, and 457s, provide American workers with an opportunity to achieve financial security in retirement. In 2013, approximately 78 percent of full-time workers were offered a retirement plan through their employers and 83 percent of those workers participated. In total 74.3 million full-time workers participate in a retirement program through their employer.[30] Life insurers are an important supplier of these long-term savings products and services.

IV. The Value of Employer-Sponsored Insurance

Poverty is much more common than most Americans realize. According to the U.S. Census Bureau, approximately 1 out of every 6 Americans is now living in poverty, a level not seen since the 1960s. In fact, 51.4 percent of the U.S. population experiences poverty at some point before age 65.[31]

Every year, the U.S. government (federal, state and local) spends about $1 trillion dollars fighting poverty, with the federal government alone operating 126 anti-poverty programs. More than 100 million people are enrolled in at least one of these federally-funded poverty programs (not including Social Security). Over the next 10 years it is anticipated that federal and state governments will spend $250,000 for every American currently living in poverty. [32]

Half of families who fall into poverty report that the main reason is a decrease in household earnings.[33] If a family is not protected, the disability or death of an income earner could result in a significant and rapid decline in family income. According to one study, in a typical year over one million individuals, including both debtors and dependents, are impacted by a bankruptcy resulting from an illness or injury.[34] Presumably, the vast majority of these people were not protected by private insurance, either individual or employer-provided.

Though government programs can be an effective safety-net when tragedy strikes, they are not a substitute for employer-sponsored insurance. Government programs typically focus on alleviating poverty, providing support to families *after* tragedy strikes, whereas employer-sponsored insurance focuses on financial well-being, making sure families never become poor and never need to change their standard of living.

In 2010 employers spent $1.6 trillion on employee benefit programs, most of which either directly or indirectly protect families from poverty.[35] Of that amount, $783.5 billion was spent on retirement programs, $652.8 billion on health benefit programs, and $286.1 billion on the remainder, including life insurance, STD and LTD. A recent study estimates that the annual economic value generated by

---

[30] From: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2012.
[31] Rank, Mark R, Hirschl, Thomas A., “The Likelihood of Poverty Across the American Adult Life Span”, *Social Work,* vol. 44, no. 3, May 1999, pp. 201-216. .
[32] Tanner, Michael, "The American Welfare State: How We Spend Nearly $1 Trillion a Year Fighting Poverty -- and Fail", Cato Institute Policy Analysis no. 694, April 11, 2012 (see: http://www.cato.org/sites/cato.org/files/pubs/pdf/PA694.pdf).
[33] Bane, Mary Jo and David Ellwood, “Slipping Into and Out of Poverty: The Dynamics of Spells,” *Journal of Human Resources*, Volume 21, No. 1, Winter, 1-23 (1986).
[34] Himmelstein, David U.; Warren, Elizabeth; Thorne, Deborah; Woolhandler, Steffie, “Illness and Injury as Contributors to Bankruptcy”, *Health Affairs*, February 2005. Based on 2001 data.
[35] EBRI, Data Book, chapter 2.

group life, STD, and LTD was between $1.5 and $4.1 trillion.[36] In total, all benefits (including paid leave and supplementary pay) accounted for 30.3 percent of total employee compensation, with the remaining 69.7 percent comprised of wages.[37]

Financial well-being, and by default poverty prevention, is the primary goal of employee benefits. A recent survey found that American workers who participate in employer-sponsored insurance plans are very satisfied with their benefits and are nearly five times less likely to worry about unexpected health and financial issues than are those without benefits.[38] As a result covered employees can be more productive and are more loyal to their employer.

In the absence of employer-sponsored insurance poverty in the U.S. would very likely be greater than it is today and the burden on the government more significant. Employer-sponsored benefits may very well be the key to both prosperity and poverty prevention.

V. Protecting More Families

Though employer-sponsored insurance protects many families, including many lower and middle-income families, a significant number still don't have coverage (see table 1 and figure 3). Employer-sponsored life insurance is not available to 28.7 million full-time workers, STD is not available to 64.3 million workers, and LTD is not available to 66.6 million workers

However, availability and participation can be significantly improved by: increasing awareness about the importance of employer-provided insurance among both employers and employees; greater product innovation and choice, and faster product approval, all of which rely heavily on an efficient regulatory process; and, ensuring that current tax treatment of group products is maintained.

A. Education and Awareness

Employers and employees are often not aware of the importance or cost of insurance. For example, despite placing a high value on benefits, about half of small employers who do not offer benefits are unfamiliar with voluntary group products or that products are available on an employee-pay-all basis.[39, 40] Additionally, about two-thirds of these employers were not approached by an agent or broker in the last 12 months. This is significant because 52 percent of small businesses report that agents and brokers are their primary source of information and 38 percent report that carriers themselves are their primary source of advice. Clearly, there is room for improvement.

Availability of group benefits is determined by the employer, but employees must choose whether or not to participate. Though take-up rates are relatively high, urveys routinely find that most Americans struggle to understand life insurance and basic financial services concepts. For example, a recent study found that:[41]

- 65% of Americans don’t know that life insurance benefits are tax-free;

---

[36] Charles River Associates, "Financial Security for Working Americans: An Economic Analysis of Insurance Products in Workplace Benefits Programs", July 2011.
[37] EBRI, Data Book, chapter 3.
[38] MetLife, Study of Employee Benefits Trends, 2013. https://benefittrends.metlife.com/home/downloads.
[39] Landry, Kimberly, "No Small Matter: How Small Businesses Make Decisions About Employee Benefits", LIMRA International, 2013.
[40] See: "What is $1 Billion an Hour Worth? Employee Perspectives on Benefits", LIMRA, 2010.
[41] Douglas, Jennifer, "What Do they Know, Anyway?, Consumer Understanding of Life Insurance", LIMRA International, 2012.

- 76% don't know that policies are protected if a carrier goes bankrupt; and,
- 82% don't know that the primary reason insurers collect medical information is to determine premium rates.

Though the failure to participate in employer-sponsored benefits is not as great a problem as a lack of availability, improved consumer awareness will result in greater coverage and may motivate employers to provide such coverage.

B. Regulatory Barriers

Employers want to offer their employees the best benefits package possible at a competitive price. In order to meet their customers demand, insurers need to quickly innovate, provide a wide array of products, and promptly bring products to market. Innovation, choice, and speed are key to maintaining, if not increasing, employer-sponsored insurance coverage. However, though well-intentioned, some aspects of the current regulatory process are often an obstacle.

Though the regulatory process has become more efficient in recent years, the current system is frequently redundant and sluggish, particularly in terms of product filing. In an effort to minimize inconsistencies, in 2006 the Interstate Insurance Product Regulation Compact (the Compact) was created. But the Compact is not a panacea. Though the National Association of Insurance Commissioners (NAIC) and individual states have taken steps to improve reciprocity and uniformity of market conduct regulation, progress has been limited. Many decisions are left up to individual states, and even if all states joined the Compact, fifty regulatory bodies separately integrating and applying uniform rules and standards will result in duplication of oversight, redundant filing and approval requirements, and overall inconsistency. The result is an inefficient system where companies are unable to operate in a uniform way across the nation.

C. Maintaining Current Tax Treatment[42]

The Federal tax code has provided tax incentives for employment-based pension plans since 1921, for compensation received for injuries or sickness since 1939, and for health plans since 1942. The general tax treatment of employee benefit programs has remained relatively consistent since then. Employer contributions to health insurance remain excluded from the employees' income and tax deductible to employers.[43] Taxes on most retirement programs are deferred until benefit receipt. Additionally, the cost that an employer incurs in funding a group life insurance plan is considered a tax-deductible business expense, and the cost of the first $50,000 of coverage is excluded from the employee's income. Employees pay income taxes on the employer-paid premiums above that threshold and, any premium an employee pays is not tax-deductible by the employee.

According to some scholars, favorable tax treatment may have played a significant role in the rapid early growth of employer-provided life insurance.[44] In order to ensure that American workers and their families have access to adequate employer-sponsored insurance coverage, it is critical that the current system be maintained.

[42] This section draws heavily from EBRI, Data Book, Chapter 1.
[43] The Affordable Healthcare Act requires that the amount of employer-paid healthcare premiums be reported to the IRS.
[44] Bucchi, Michael, "Growth of Employer-Sponsored Group Life Insurance", *Monthly Labor Review,* October 1991, pp. 25-32.

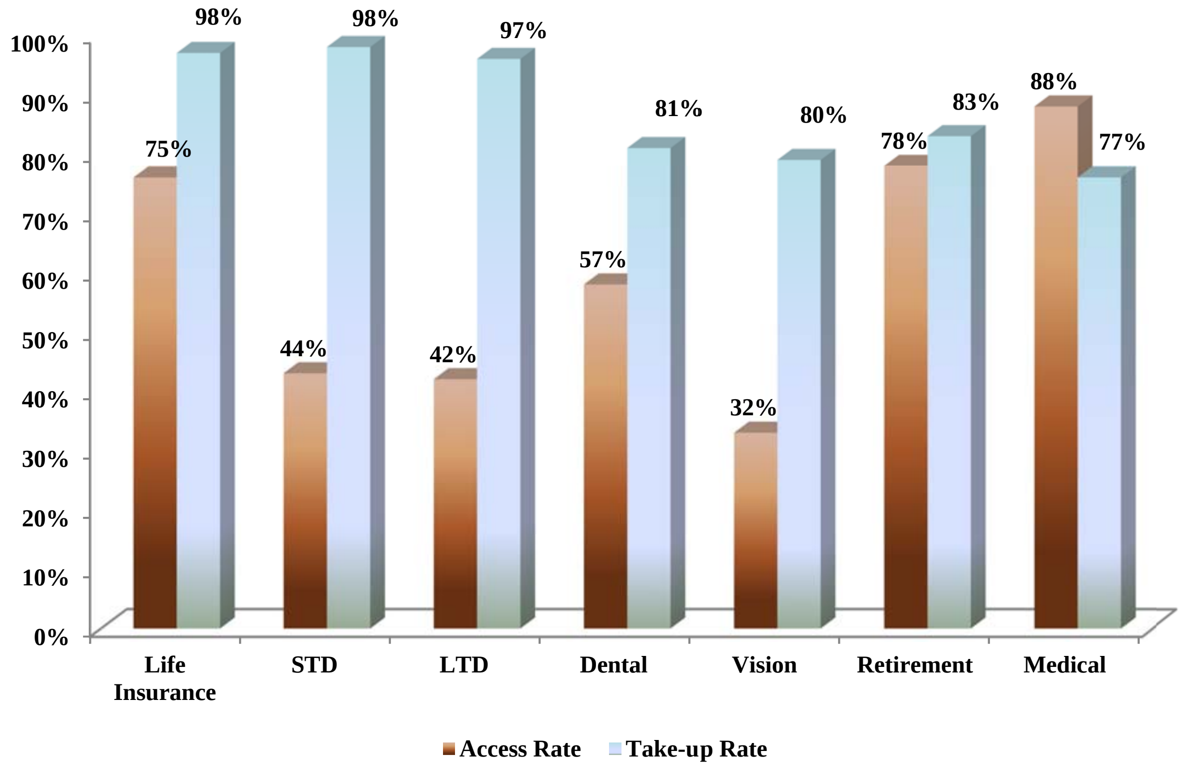
VI. The Future of Employer-Sponsored Insurance – Challenges on the Horizon

Medical insurance is the most costly benefit employers offer, comprising 8.4 percent of total compensation in 2010.[45] The recently enacted Patient Protection and Affordable Care Act (PPACA) requires that every U.S. citizen have affordable health coverage beginning in 2014. Large and medium-sized employers, (those with 50 or more full-time workers) face a penalty if they do not offer health insurance to their employees, but small employers (less than 50 full-time workers) who do not provide health insurance are not penalized.

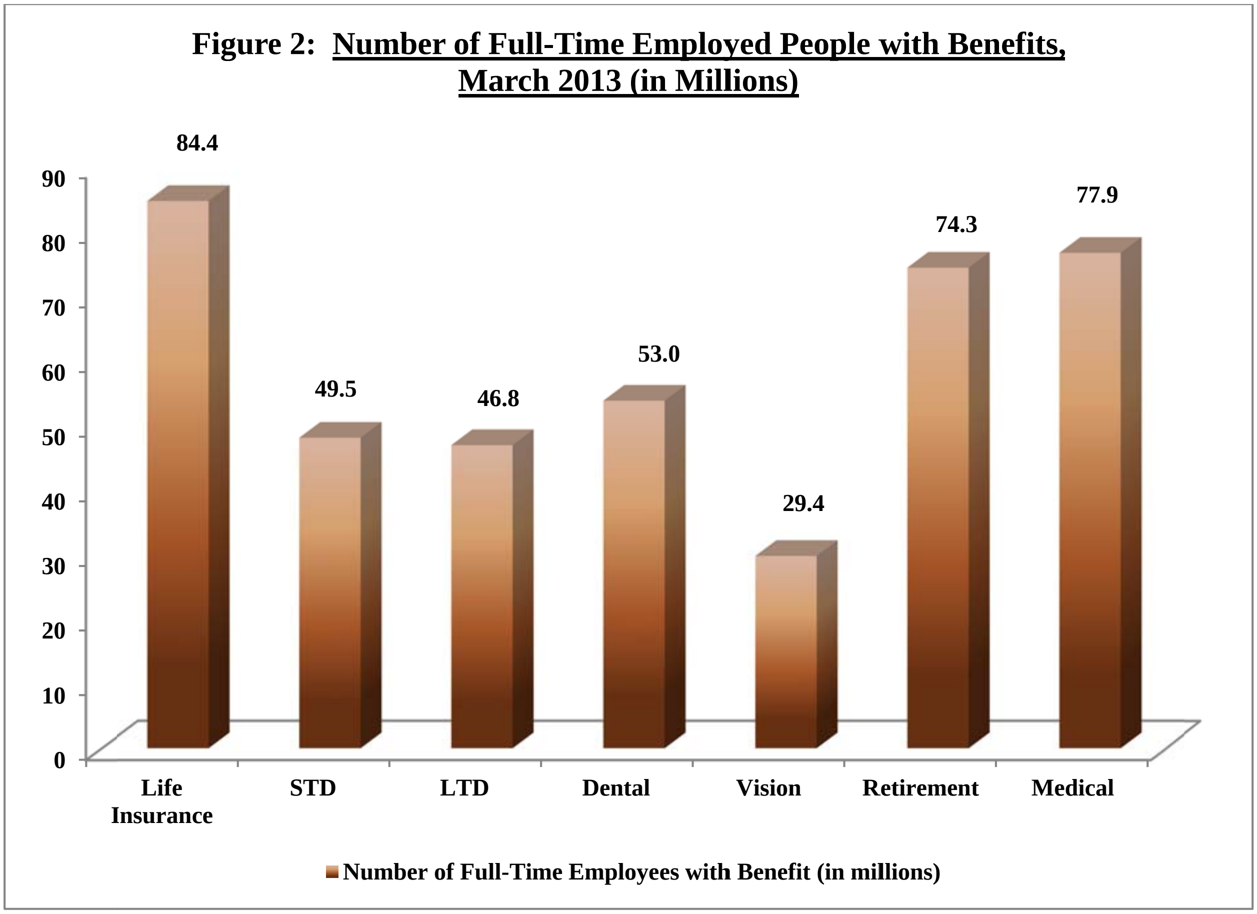
The implementation of the PPACA is in its early stages and the full impact is unclear, but there will clearly be challenges. Employers may be forced to transition to new benefit models such as 100 percent employee paid benefits or possibly eliminating benefits entirely. The latter may be particularly appealing to small and midsize employers who have fewer available resources and who are under greater cost pressures than large employers.[46] These changes, if they occur, may have implications for non-medical group benefits.

[45] From: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2012.
[46] http://www.limra.com/Research/Abstracts/2013/130321-02.aspx

Figure 1: <u>Availability and Take-Up Rates for Employer-Sponsored Benefits, Full-Time Employees, March 2013</u>



From: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2013.
Note: Includes workers in the private nonfarm economy, except those in private households and workers in the public sector, except federal government.



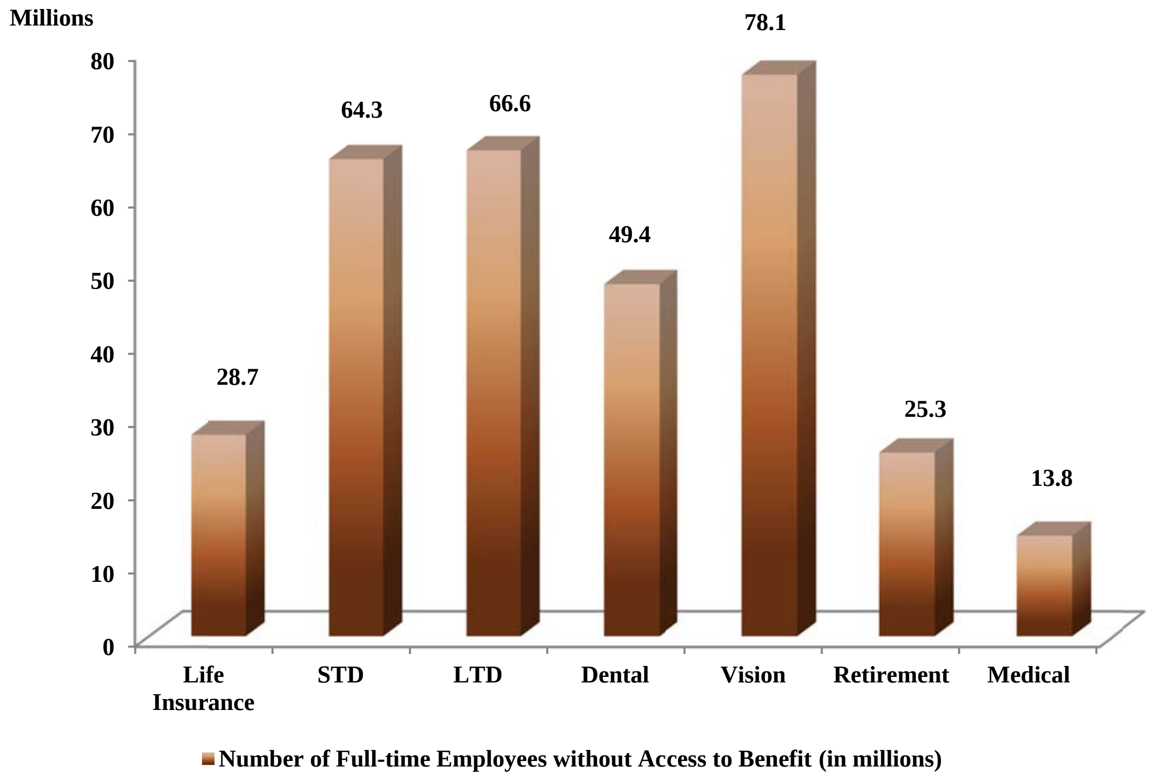
From: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2013.
Note: Includes workers in the private nonfarm economy, except those in private households and workers in the public sector, except federal government.

Table 1: Gaps in Coverage, Full-Time Employees, March 2013

	Not Available Through Employer	Available but Choose Not to Participate	Full-Time Employees Who Are Not Covered
Life Insurance	28,699,000	1,721,940	30,420,940
Short-Term Disability	64,285,760	1,010,205	65,295,965
Long-Term Disability	66,581,680	1,446,430	68,028,110
Dental	49,362,280	12,432,407	61,794,687
Vision	78,061,280	7,346,944	85,408,224
Retirement	25,255,120	15,221,950	40,477,070
Medical	13,775,520	23,234,710	37,010,230

From: Calculated using data from U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2013, and Current Population Survey Includes workers in the private nonfarm economy, except those in private households and workers in the public sector, except federal government.

Figure 3: Number of Full-Time Employed People for Whom Benefit are not Available, March 2013 (in Millions)



From: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2013.
Note: Includes workers in the private nonfarm economy, except those in private households and workers in the public sector, except federal government.