



**The American Council of Life Insurers**

**Written Statement for the Record**

**for**

**“Maintaining the Disability Insurance Trust Fund’s Solvency”**

**Before the**

**United States House Committee on Ways and Means  
Subcommittee on Social Security**

**February 25, 2015**

**2:00 P.M.**

**B-318 Rayburn House Office Building**

The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums.

ACLI member companies provide the majority of disability income insurance coverage in the United States. Disability income insurance may be provided by an employer as a group benefit or it may be purchased individually. An individual policy provides protection for as long as the policyholder continues to pay the premium. Group coverage lasts as long as someone is employed or is a member of the group, and the premium is paid. In group plans, premiums may be paid by the employer, the employee or both.

Disability income insurance helps avoid depleting savings accumulated for a children's education or retirement.

Approximately 32 percent of the U.S. workforce is covered by long-term disability insurance through their employer. Private long-term disability insurers provide income protection to approximately 45,500,000 individuals. In 2013, insurers paid more than \$10.9 billion in disability insurance benefits. Disability income insurance offered as a workplace benefit is very affordable—the typical American salary can be covered for about \$25 a month.

We appreciate the opportunity to submit the following statement for the record for your hearing focused on the financial status of the Disability Insurance (DI) and Old Age and Survivors Insurance Trust Funds, and the available legislative options to ensure full DI benefits continue to be paid. We understand the challenge that the Committee faces as it begins to review ways in which it can address the projected depletion of the Social Security Disability Insurance Trust Fund by late 2016. ACLI and its member company disability income insurers complement and supplement SSDI and urge Congress not to adopt any policies which would discourage the use of private disability income insurance.

### **Overview of Disability Income Insurance**

Disability can result in prolonged unemployment and, in many instances, can drive a family into poverty. 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.<sup>1</sup>

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. Some facts to consider:

- Over 56.7 million people in the U.S. had a disability in 2010 (18.7 percent of the

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<sup>1</sup> The Hartford, Benefit Landscape Study, 2010 (see: [http://blogs.courant.com/connecticut\\_insurance/The%20Hartford's%202010%20Benefit%20Landscape%20Survey.pdf](http://blogs.courant.com/connecticut_insurance/The%20Hartford's%202010%20Benefit%20Landscape%20Survey.pdf)).

- population).<sup>2</sup>
- About 38.3 million people in the U.S. had a *severe disability* (12.6 percent of the population).<sup>3</sup>
  - 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.<sup>4</sup>
  - 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.<sup>5</sup>
  - Twenty-three percent of people with a disability live in poverty, compared to 15 percent of people without a disability.<sup>6</sup>
  - 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.<sup>7</sup>
  - 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.<sup>8</sup>

Disability income insurance (or DI) 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 STD 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.

Some DI policies also cover the cost of job training if a worker can no longer perform his or her current occupation, or needs workspace modifications.

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 that were offered disability income insurance, participation was 98 percent for STD and 97 percent for LTD.<sup>9</sup> In total, 49.5 million full-time workers had STD coverage through their jobs, and 46.8 million had LTD coverage.

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<sup>2</sup> U.S. Department of Commerce, Bureau of the Census, [Americans With Disabilities, 2010](#), July 2012.

<sup>3</sup> U.S. Department of Commerce, Bureau of the Census, [Americans With Disabilities, 2010](#), July 2012.

<sup>4</sup> U.S. Department of Commerce, Bureau of the Census, [American Community Survey, 2011](#).

<sup>5</sup> See: Social Security Administration, "Basic Facts", February 7, 2013.

<sup>6</sup> U.S. Department of Commerce, Bureau of the Census, [Americans With Disabilities, 2010](#), July 2012.

<sup>7</sup> Consumer Federation of America and Unum, "Employee Knowledge and Attitudes about Employer-Provided Disability Insurance", 2012.

<sup>8</sup> 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).

<sup>9</sup> From: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, March 2013.

## Value to Consumers

In 2013 alone, insurers paid over \$10.9 billion in long-term disability benefits.

A 2008 Harris Interactive survey commissioned by America's Health Insurance Plans (AHIP), assessed disability insurance claimants' satisfaction with their policy, as well as their experience filing a claim and receiving benefits. Key findings from that survey were as follows:

- Overall, four out of five claimants (82 percent) said that they are very satisfied or somewhat satisfied with their policy.
- Most claimants were satisfied with the process for filing a claim (81 percent), promptness of payment (79 percent), responsiveness of the insurer (75 percent), and overall communication from the insurer (71 percent).
- Two-thirds of claimants (66 percent) did not encounter any problems with the claims process, and among those that did, the vast majority (84 percent) had their problem resolved satisfactorily.
- The vast majority of claimants (96 percent) say it is at least somewhat likely they would have suffered financial hardship if they did not have disability income protection. Furthermore, two-thirds (67 percent) say it would have been very or extremely likely that they would have suffered financial hardship if they had not received private disability insurance payments.

In addition to replacing lost income for claimants in a timely manner, private disability insurers can play a key role in restoring disabled workers to financial self-sufficiency and maintaining productivity for America's businesses. The industry has been proactive in designing policies that facilitate claimants return to work. Additionally, by investing in rehabilitation and return-to-work programs, private disability insurers are actively engaged in assisting workers with disabilities return to the workforce.

Innovative rehabilitation and return-to-work programs include a wide range of strategies in recognition of the fact that persons with disabilities are highly diverse and face varying circumstances. Services offered include medical case management, vocational and employment assessment, worksite modification, purchase of adaptive equipment, business and financial planning, retraining for a new occupation, child or dependent care benefits during rehabilitation and education expenses. These innovative benefits reflect the industry's strong commitment to promoting employment and self-sufficiency among persons with disabilities.

Disability insurers also help consumers exercise their rights under the Social Security Disability Income (SSDI) program. The integration of disability income benefits with Social Security disability benefits has long been recognized by regulators, the insurance industry, and employers as an important tool in reducing the cost of disability insurance coverage and keeping it affordable so that the maximum number of employees can receive coverage. Disability income insurers carefully screen their long-term disability claimants to determine if it is reasonable to expect them to receive Social Security benefits.

For those who are expected to qualify, insurers dedicate significant resources to help with the application process, which can be confusing and burdensome.

Furthermore, helping qualified claimants apply for SSDI provides them with important benefits beyond a simple monthly income check. These benefits include cost of living adjustments, continuing credit toward Social Security retirement benefits, and, in time, eligibility for Medicare coverage. These SSDI benefits are in addition to what disability insurers pay to help cover living expenses while a person is unable to work and earn an income.

### **Public Policy**

In 2013, only 32% of workers were covered by disability income insurance. ACLI supports expanding the disability income marketplace to enhance workers' financial security and protect savings for retirement. We support measures that encourage disabled workers to attain maximum functionality and return to the workplace.

According to a recent study, private insurer disability management and return-to-work assistance could save the federal government \$25 billion over 10 years. Almost half of these savings accrue to the Social Security Disability Insurance (SSDI) program. The remaining savings arise when ill or injured workers are able to return to work and leave the rolls of public programs, such as Medicare, Medicaid and the Special Nutrition Assistance Program (SNAP).<sup>10</sup> In addition, the study found that the receipt of private disability income replacement benefits could lift up to 575,000 American families out of poverty each year and save the nation's taxpayers up to \$4.5 billion annually by reducing dependence on the Temporary Assistance for Needy Families (TANF) program and SNAP.<sup>11</sup>

As part of the Pension Protection Act of 2006 (PPA), and in response to concerns by employers regarding employer sponsorship of 401(k) automatic enrollment arrangements, Congress clarified that such arrangements are permissible under existing laws and that state laws should not upset these arrangements. Employers responded to the legislation by adopting 401(k) plan automatic enrollment arrangements for their employees.

Like the PPA provision, ACLI supports proposed legislation that would allow automatic enrollment arrangements for disability income coverage—helping to bring the benefits of this coverage to many more employees. Much like 401(k) plan automatic enrollment, under these arrangements employees are enrolled in employer sponsored disability income coverage when hired or upon initial eligibility, subject to advance notice and broad rights to opt-out of coverage.

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<sup>10</sup> Under current conditions and as currently configured, disability income programs should save the Federal treasury \$25 billion over 10 years, by allowing approximately 65,000 employees a year to rely less or not at all on federal "safety net" programs. Charles River Associates, *Private Disability Insurance and Return-to-Work: Cost Savings to SSDI and Other Federal Programs*, September 2013.

<sup>11</sup> Charles River Associates, *Financial Security for Working Americans: An Economic Analysis of Insurance Products in Workplace Benefits Programs*, July 2011.

The legislation would not mandate that employers provide disability income insurance, nor would it establish any financial incentives for them to do so. The proposed legislation simply clarifies the permissibility of these arrangements and sends a signal of the importance of such benefits to employees.

ACLI also supports the McCrery-Pomeroy SSDI Solutions Initiative, a project dedicated to identifying practical policy changes to improve the Social Security Disability Insurance program for its beneficiaries, those contributing to the program, and the economy as a whole.

The goal of the project is to provide policymakers with implementable improvements to the program which can be considered as part of efforts to avoid the projected SSDI trust fund insolvency in late 2016.

As part of the project, the Charles River Associates (CRA), supported by ACLI and AHIP, will examine the interaction between private disability income protection coverage and the Social Security Disability Insurance (SSDI) program. The CRA research will identify the benefits to the overall national economy of private disability income coverage, including insurers' disability management techniques and return-to-work (RTW) support strategies, and quantify the net financial impact on the SSDI program.

The industry looks forward to sharing the results of this research with the Committee.

## **Conclusion**

Employees recognize that disability income coverage, as a part of their benefit package, provides a valuable measure of protection in the event of a disabling injury or illness. While most people are able to return to work following a short period of recovery, some people find themselves unable to return to work within six months, and need long-term disability insurance to assist them and their families during this difficult time. A combination of public and private coverage can provide critical financial support.

The private disability income insurance industry has for many decades played an integral role in providing for the financial well-being of and peace of mind for American workers and their families. The current framework of federal and state consumer protections provides the all important balance of providing a reasonable cost of coverage and appropriate handling of claims.

The disability income insurance industry appreciates the opportunity to serve as a resource for this Committee as it continues to look for ways to maintain the Social Security Disability Insurance program upon which millions of American families rely.