



FINANCIAL PROTECTION PRODUCTS FOR MAJOR LIFE RISKS: PRIVATE DISABILITY INCOME INSURANCE

Another major financial risk faced by families is prolonged unemployment due to an illness or injury that can jeopardize a family's financial security. Private long-term disability income insurance offers paycheck protection and complements the safety net provided by the Social Security Disability Income program.¹

Private long-term disability income insurance provides cash to the insured to meet expenses such as mortgage payments, rent or utilities. It also can pay for training or other assistance needed for one to return to work.

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.

Only approximately 32 percent of the U.S. private workforce has long-term disability insurance through their employer.² According to statutory data, insurers earned \$2.2 billion in premiums on 3.3 million policies for individual short-term disabilities in 2016, and \$4.8 billion on 3.0 million policies for individual long-term disabilities. In 2016, insurers earned \$5.1 billion on 9.7 million group short-term disability income policies covering 22.2 million lives, and \$12.2 billion on 15.9 million group long-term disability income policies covering 44.4 million lives.³

Group Coverage Through Work

For short-term illness or injury, an employer may offer sick leave or short-term disability insurance (or both). Employee sick leave and short-term disability coverage can range from a few days to six months or more.

Some employers also may offer group long-term disability coverage, which provides benefits that replace a person's salary if he or she is unable to work for an extended time. Group long-term coverage generally begins when the short-term disability coverage for an employer stops.

Benefits from group policies generally continue until either age 65 or retirement age under Social Security or until the claimant is able to return to work. A typical policy pays at least 60 percent of a covered person's salary up to a specified amount, such as \$5,000 a month.

¹ For individuals who qualify, Social Security replaces a limited portion of their salary if they are disabled. Generally, qualifications to receive Social Security Disability Income (SSDI) benefits are much stricter than those of private insurance policies.

² Bureau of Labor Statistics, employee benefit data, March 2017

³ 2016 NAIC Annual Statement data

Individual Coverage

Individual long-term disability policies can provide coverage in the absence of group coverage or can be used to supplement coverage obtained through an employer. Most policies pay 50-60 percent of monthly salary but some pay as much as 70-80 percent.

Individual policies can be tailored to meet a policyholder's needs, so features and benefits can vary from policy to policy. For example, some policies pay benefits when a policyholder is unable to perform the major duties of his or her own occupation. Other policies pay benefits if the policyholder is unable to perform the duties of any occupation for which he or she is reasonably qualified by education, training, and experience. Many policies combine these features, providing "own occupation" coverage for one or two years and "any occupation" coverage after that.

Policies also can have different waiting periods (also known as elimination periods) before they pay benefits. Policyholders can lower their premiums by waiting 90 days, six months or even longer before starting to receive benefits.

Laws and Regulations

Disability income insurers are governed by federal and state laws and regulations designed to ensure policyholders and claimants are treated fairly and honestly. Employer-sponsored plans are subject to requirements of the Employee Retirement Income Security Act of 1974 (ERISA). Requirements under ERISA address timeframes for claim decisions, requirements for keeping claimants informed and apprised of claim actions, and the appeal rights afforded claimants whose claims are denied.

In addition to ERISA, insurers must adhere to state requirements that ensure claims are handled promptly and properly. The National Association of Insurance Commissioners' Unfair Claims Settlement Practices Act ensures that claimants are treated fairly, claims are settled promptly, and clarifies the right of claimants whose claims are denied to have their matter reviewed by the state insurance department.

Disability Income Coverage and Public Policy

Disability income coverage helps employees return to work and reduces burdens on public programs. Disability management programs that are a part of private disability income coverage give workers the tools, resources, and support needed to get back on the job. These programs help individuals return to work faster, improve their quality of life, resume their earning potential, and move forward with their career. Positive return-to-work outcomes reduce burdens on the Social Security Disability Insurance (SSDI) program and other public assistance programs, potentially saving the federal government as much as \$25 billion over 10 years according to Charles Rivers Associates.⁴

March 2018

⁴ "Expanding Private Disability Insurance Coverage to Help the SSDI Program" Babel and Meyer – funded by ACLI and America's Health Insurance Plans