Insurance Benefits and Government Spending

How life insurer products reduce reliance on public programs

March 2025

ACLI
Financial Security for Life

Table of Contents

EXECUTIVE SUMMARY

The American Council of Life Insurers (ACLI) set out to research, estimate and summarize the influence that life insurer products may have on government spending. We evaluate the likelihood and potential impact that these products provide benefits that reduce the need for beneficiaries to rely on government-funded programs.

The private life insurance market comprises various product offerings and financial models. Products are crafted to provide greater financial stability for U.S. residents at various stages of life, and across many ages and financial circumstances. Participating in these products likely diverts some of these policyholders from eventual reliance on government-funded programs. Reducing reliance on government programs will therefore result in relief from some strain on government resources. Financial stability among individuals, families and within government spending creates a more stable, predictable economic outlook for not only those who benefit from these products, but for taxpayers and future generations.

In this paper, we discuss high-level quantitative estimates of offsets to government spending from the purchase and utilization of life insurer products. We identify meaningful areas where the private life insurance market and insurers may create opportunities for beneficiaries to participate in the private market in lieu of seeking services from the federal government.

We have identified two such government programs that may be realizing savings as a result of beneficiaries utilizing benefits in the private life insurance market: Social Security (both the retirement and disability components) and Medicaid. We will briefly discuss these programs and how they serve their existing population and broadly describe current government spending for these programs. The populations served by these programs may overlap and may benefit from life insurer products that serve the needs that both programs currently fill. We will outline the types of products within the private life insurance market which may currently cover beneficiaries who may otherwise be reliant on government programs, now or in the future.

At a high level, we estimate two savings associated with these programs:

- Social Security – Retirement Income: $11 billion net present value impact per annual retirement cohort, reflecting those retirees who delay Social Security income. In the immediate 10 years (2025-2034) these savings are about $16 billion for an annual retirement cohort, offset in years 11+ by about $5 billion of negative impact from the higher retirement income given to those who delay, and the longer expected lives of those who elect to delay.

- Social Security – Disability Income: $8 billion net present value impact over the succeeding 10 years, reflecting those people whose private disability insurance forestalls or allows them to avoid taking SSDI.

- Medicaid: Estimated $14 billion of avoided Medicaid Long-term Services and Supports spending in the succeeding 10 years ($48 billion in present value across all years), saved on current owners of private LTC insurance.

We explain the methodology and assumptions for determining these figures in corresponding sections of this white paper.

RESULTS

This white paper discusses three key areas of potential insurance benefit impact to government spending. First, we estimate an $11 billion present value net impact per annual cohort of retirees delaying Social Security income. This may represent approximating 0.4% of total spending (present value) of the retiring cohort at Full Retirement Age (FRA).

Second, we estimate that the government currently avoids spending about $0.8 billion each year (or $8.2 billion over a 10-year period, on a present value basis) in Social Security Disability Income (SSDI) due to the presence of today's private workplace disability insurance programs.

Thirdly, we estimate a $47 billion avoided Medicaid Long-term Services and Supports (LTSS) spending over all years (present value), or $14 billion in the succeeding 10 years, from otherwise eligible individuals who currently own private long-term care insurance (LTCI) and hybrid life and long-term care (LTC) policies.

BACKGROUND

Government funding is allocated across several spending streams and subsets of budget line items. Within those, retirement and healthcare, specifically long-term services and supports (LTSS) for the aged and disabled, comprise 44% of the entire budget (FY 2023)[1]. ACLI explored potential areas that life insurer products could create savings in the federal budget, and in state budgets insofar as they are impacted also by federal funding. Understanding the trade-offs, winners and losers associated with any shift of federal funding or creation of savings as a result of elimination or replacing some set of services is important to the overall budgeting process. The process is subject to both executive, legislative and outside societal pressures that fluctuate from fiscal year to fiscal year, as priorities and economic factors respond to societal trends.

1 https://www.kff.org/medicaid/issue-brief/medicaid-financing-the-basics/

FIGURE 1

Budget Function	FY23 Obligated Amount ($B)	Percent of Total
Medicare	$1,555	16.70%
Social Security	$1,438	15.40%
National Defense	$1,297	13.90%
Health[2]	$1,039	11.10%
Net Interest	$906	9.70%
Income Security	$827	8.90%
General Government	$567	6.10%
Veterans Benefits and Services	$325	3.50%
Education, Training, Employment, and Social Services	$297	3.20%
Commerce and Housing Credit	$194	2.10%
Transportation	$162	1.70%
Unreported Data[3]	$147	1.60%
Natural Resources and Environment	$115	1.20%
Community and Regional Development	$113	1.20%
International Affairs	$107	1.10%
Administration of Justice	$107	1.10%
Agriculture	$59	0.60%
General Science, Space, and Technology	$46	0.50%
Energy	$29	0.30%
Total	$9,332	100.00%

We have identified opportunity for life insurers to demonstrate savings to the federal government related to a few core products that life insurers have long-established experience providing to U.S. residents: basic life insurance and annuity products; and private long-term care insurance. Life insurance and annuity products may facilitate improved retirement planning, and private long-term care insurance may help individuals and families better afford long-term care services and supports to avoid the need for support from federal programs like Medicaid.

Life insurance products refer to insurance policies purchased by an individual or group to provide protection from financial hardship when the insured person, the policyholder, dies. According to the American Council of Life Insurers (ACLI), 90 million American families rely on life insurer products for financial and retirement security.[4]

---

2 *The Health budget category includes $665B for "Grants to states for Medicaid"*

3 *Unreported data may happen when an agency reports no data or incomplete data, when an agency is late with its submission for the period, or if new agency submission data updates may still be in progress.*

4 *pub_07fb23_chapter_07_lifeinsurance.pdf (acli.com)*

Annuity products refer to financial contracts that may pay a steady stream of income for either a fixed period of time or for the lifetime of the annuity owner. Group annuities are commonly offered as employee benefits in the form of retirement savings plans. Reserves for group annuities accounted for nearly a third of all annuity reserves by the end of 2022. In addition to group annuities, individuals may purchase an annuity directly from a life insurer.[5]

Disability insurance offered primarily through employers typically include short-term and long-term disability coverage. Short-term disability insurance provides income replacement for a limited period, usually up to six months, covering about 40% to 80% of an employee's salary, while long-term disability insurance commences after the short-term period, often covering 50% to 70% of income for extended periods, sometimes until retirement age. About 50% of people in the U.S. today are covered by some form of private disability insurance[6].

Long-term care insurance[7] refers to insurance that can cover the costs of long-term care services like nursing homes, assisted living, or at-home care. It is a form of financial protection that helps people pay for LTC services and pays benefits when the policyholder is unable to perform two or more activities of daily living (ADLs), or when the policyholder is severely cognitively impaired. Unlike a life insurance policy, benefits from an LTC policy are paid monthly based on a pre-set maximum benefit as agreed upon in the policy. Inflation protection available under an LTC policy increases benefit levels to keep up with the rising costs of care.

---

5 pub_08fb23_chapter_08_annuities.pdf (acli.com)

6 Disability insurance ownership has been trending down for a decade. .... The 51% of working adults who have disability coverage dropped 12% from 2018 and 18% from a decade ago, in 2013." The Guardian. https://www.guardianlife.com/reports/insuring-your-income

7 101943_010_acli_longtermcareguide_v8r2.pdf

SOCIAL SECURITY

Retirement Savings

The mechanics of the Social Security program benefit retirees in a number of ways, including but not limited to the flexibility that allows individuals to begin collecting retirement income benefits (“enroll”), or alternatively delay enrollment, based on their individual financial situation and other factors. The number of individuals who elect to delay enrollment to a later age can impact the function of the program by fluctuating the demand for resources earlier or later than the anticipated retirement age.

Life insurance and annuity products facilitate retirement planning for a subset of the population with the ability to engage in planning for their future, including those with employers that allow for annuity contribution. Financial advisors often recommend delaying retirement to an older age given the structure of Social Security income benefits that increase with each year of delay. This advice may pertain primarily to individuals at certain higher income levels and depends on the individual financial situation on a case-by-case basis.

In federal fiscal year 2023, Social Security benefits represented 15.4% of overall government budget outlays, the second largest category of spending (Medicare outlays being the largest, at 16.7%). We found that of the population that would qualify for Social Security benefits in 2024 at age 67, a delay in beginning Social Security benefits of three years may impose a roughly 7% reduction in net lifetime income paid by Social Security. As a midpoint, delaying retirement at any length may reduce spending on lifetime cohort retirement income by roughly 0.4%. Figure 2 shows estimated cumulative social security income over roughly 10 years for a single cohort aged 67, under the scenarios where the cohort retires at ages 67, 68, 69, and 70.

FIGURE 2

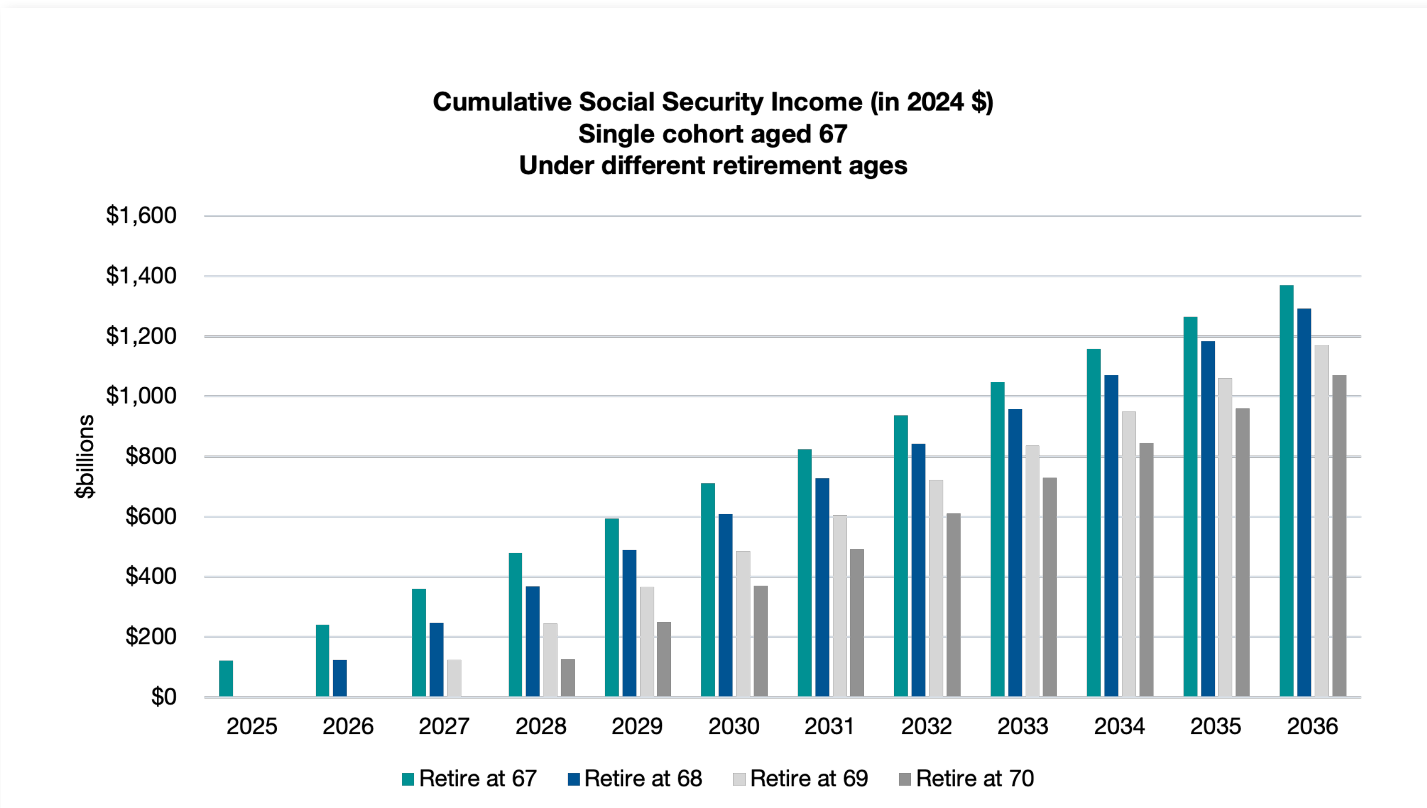
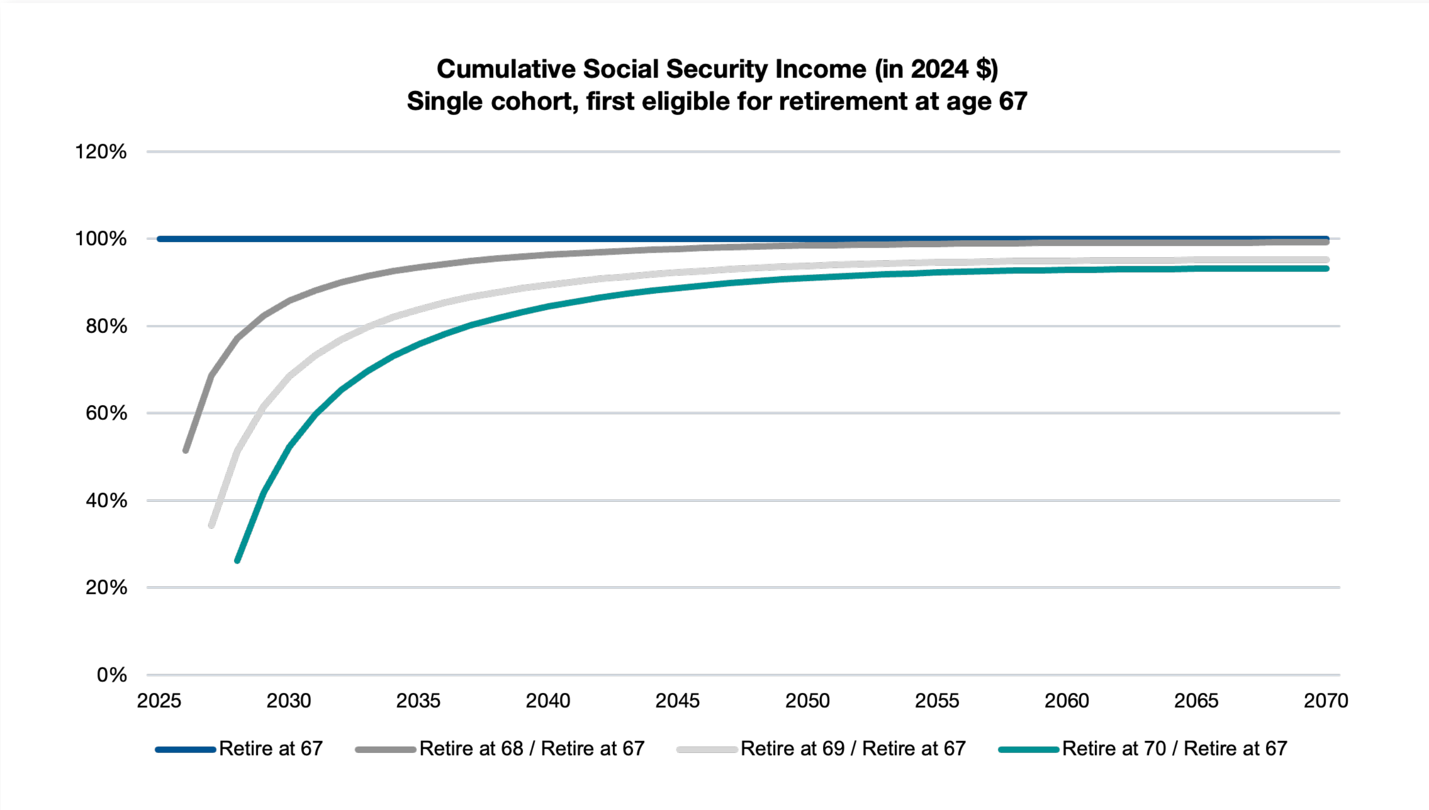


Figure 3 shows the reduced amount of cumulative Social Security income payments over time to individuals aged 67 through 70 at delayed retirement. We illustrate this as the cumulative payments for a later retiree divided by the cumulative payments to an aged 67 retiree.

FIGURE 3



These savings are substantial – roughly 0.4% or $11 billion on a lifetime present value basis – for the portion of people in this aging cohort who choose to delay their retirement. If budget horizons are limited to 10 years, the savings are much greater because the delay in receiving income benefits for entire years is not offset by the increased income rates or considerations for population longevity in cohorts that elect to delay.

The impact of this delay effect is larger when you consider its impact across many years of retiree cohorts.

Disability Insurance (SSDI) Savings

About seven million disabled workers received benefits in 2023 from Social Security. Research from Babbel and Meyer[8] indicate that the proactive return-to-work programs implemented by private disability insurance have the effect of increasing disability claim recoveries. In 2014 work, they estimated that approximate 65,000 such workers were no longer receiving SSDI in 2013 thanks to these programs, or about 0.73% of all disabled workers at the time.

Today, there are fewer new SSDI awardees each year (509,000 in 2023 compared with 869,000 in 2013) and fewer overall workers receiving SSDI (7.3 million in 2023 compared with 8.9 million in 2013). Moreover, fewer people purchase own disability insurance today (about 51% of all people) relative to those in 2013 (about 60% of all people).

8 *Expanding Private Disability Insurance Coverage to Help the SSDI Program, 2014,* https://www.crfb.org/sites/default/files/pdfs/babbelmeyer.pdf

Nevertheless, private disability insurance return-to-work and recovery efforts are a positive force to ensure those with private disability insurance return to work as quickly as possible. If we take the same estimates: that 0.73% of disabled workers, adjusted for today's baseline disabled population of 7.3 million and the reduction in uptake of private disability insurance, we believe that private disability insurance produces roughly $0.8 billion per year, or $8.2 billion over 10 years, of savings to SSDI.

MEDICAID

Participation in LTCI insurance may decrease the likelihood that people will spend down assets to qualify for Medicaid LTSS. The spend down process allows individuals to reach Medicaid eligibility levels by reducing their income and assets, so long as they abide by certain spend down rules. Eligibility levels vary by state, with the exception of California, which does not have a set asset limit as of 2024.[9]

Over 70% of individuals aged 65+ will need some form of long-term care[10]. Some portion of individuals who are currently enrolled in LTCI policies may have otherwise been eligible for Medicaid assistance towards their future LTSS need. These individuals may have otherwise become eligible for Medicaid support in the even their assets were exhausted paying for long-term care or associated services out-of-pocket in the absence of insurance to cover those costs. At which time individuals have exhausted these resources, absent an insurance policy or other funding source to rely on, they may have needed to enroll in Medicaid services for some period of time following their payment out-of-pocket.

We assume that 5% of LTCI policyholders may have qualified for Medicaid if they had not purchased an LTCI policy. This assumption is based in part on findings from the U.S. Government Accountability Office (GAO) which states in its May 2014[11] report that 74% of its sample "owned at least some resources that were not countable as part of their financial eligibility determination …" and of that 74 percent, "55 percent … had $20,000 or less in noncountable resources, 27 percent … had noncountable resources between $20,001 and $100,000, and 17 percent … had greater than $100,000 in resources that were not countable toward eligibility."

---

9 How Medicaid Spend Down Works: Rules, Exemptions & Strategies

10 https://aspe.hhs.gov/reports/what-lifetime-risk-needing-receiving-long-term-services-supports-0

11 Financial Characteristics of Approved Applicants and Methods Used to Reduce Assets to Qualify for Nursing Home Coverage, https://www.gao.gov/assets/gao-14-473.pdf

METHODOLOGY

Estimating the impact of delayed retirement

We calculated Social Security retirement outlays from people who retired at age 67 and compared these expected outlays to those for people retiring at later ages of 68, 69 and 70 years old. To understand the projected amount of Social Security Income paid under different retirement ages based on a single baseline cohort population at age 67, we assumed that 8-10% of the eligible population delays retirement until age 70[12]. We calculate that a full three years of delay may impose a ~7% reduction in net lifetime income paid by Social Security. As a midpoint, delaying retirement avoids about 0.4% of spending on lifetime cohort retirement income. These results are consistent with other research on this topic[13], that the overall expected present value of future retirement income declines with retirement age, even as annual payments increase.

The comparison, or difference, between outlays associated with retirement at Full Retirement Age (FRA) represents potential funding forgone by government spending. Said another way: those who delayed retirement beyond FRA by at least one year and up to three years may have done so as a result of utilization of benefits paid by life insurance or annuity products (or both). The benefit amounts paid by those policies represent dollars that were not paid by Social Security for one or up to three years.

Estimating the impact of higher recoveries from private return-to-work programs

We concur with Babbel and Meyer that private disability return-to-work programs are efficacious in light of their SSDI counterparts. This result is consistent with a 2018 GAO report[14] which notes:

> *Both SSDI and PDI policies offer services and supports to beneficiaries to help them return to work, but PDI policies may focus more on early provision of services and, depending on the policy, earlier intervention and case management. SSDI program rules allow beneficiaries access to return-to-work services and supports through the Ticket to Work (TTW) program, which helps interested beneficiaries transition to self-sufficiency through work. When individuals become eligible for SSDI, SSA guidance calls for sending them information about public or private employment networks or state vocational rehabilitation agencies. According to SSA's guidance, beneficiaries can choose to work with one of these service providers and develop a plan for work goals that may involve services such as training, career counseling, vocational rehabilitation, and job placement. The TTW program then pays for those services and ensures that participating beneficiaries will not be subject to a review of their disability while they continue to work with the service provider. However, the SSA Office of the Inspector General reported that fewer than 3 percent of beneficiaries were participating in TTW in 2015. In addition, SSA-funded evaluations have found that TTW has had limited success in returning SSA beneficiaries to work and reducing their dependence on SSDI.*

The research estimates that in 2013, the SSDI program would have provided payments for 0.73% (65,000 out of 8.9 million) more disabled workers in the absence of private disability insurance. In 2013 approximately 60% of workers were covered by private disability insurance, while that number today is closer to 50%.

Finally, in 2013 the average beneficiary was paid $13,757 annually in disability income whereas in 2023 the average primary beneficiary receives about $18,000 annually.

---

12 Schoders 2024 U.S. Retirement Survey, https://mybrand.schroders.com/m/4b0ec39ae2355377/original/2024_US_Retirement_Survey_Retirement_Income_FINAL.pdf

13 THE EFFECT OF CHANGES IN SOCIAL SECURITY'S DELAYED RETIREMENT CREDIT: EVIDENCE FROM ADMINISTRATIVE DATA, https://www.nber.org/system/files/working_papers/w28919/w28919.pdf

14 SOCIAL SECURITY DISABILITY INSURANCE Information on Potential Implications of Expanding Private Disability Insurance. https://www.gao.gov/assets/gao-18-248.pdf

Thus, we adjust the 2013 estimates by reducing the baseline of disabled beneficiaries (from 8.9 million to 7.3 million), reducing the number of potential beneficiaries by the prevalence of private disability insurance (from 60% to 50%) and increasing the annual average payout to $18,000.

We therefore estimate that about $0.82 billion could be saved each year through private disability return-to-work programs (= 7.2 million SSDI disabled insureds x 0.73% of avoided worker claims x (50% / 60%) private market penetration x $18,000 in average SSDI payments).

Over 10 years, we expect the average annual SSDI payment to increase, while the population of people receiving SSDI will continue to decrease with the decline in estimated population receiving disability insurance. On net we expect about $8 billion of total savings to SSDI from this private market coverage.

Estimating the impact of enrollment in long-term care insurance

We estimate that some portion of individuals who fund LTCI policies for reimbursement of indemnity to pay for a long-term care event (i.e., cognitive impairment, activity of daily living assistance) would otherwise be eligible for Medicaid assistance towards their future long-term services and supports (LTSS) needs. The portion of LTCI policyholders that would qualify for Medicaid, absent their purchase of an LTCI policy is based on an estimation of the number of individuals utilizing their benefits and the amount of those claims compared to amounts needed to spend down to Medicaid limits. We calculated a projection of future paid LTCI claims in millions of dollars based on an average age at LTC claim, average length of the claim and calibrated the claim curve to actual paid amounts from 2019 to 2023.

ASSUMPTIONS

Social Security Retirement Assumptions

We developed the following assumptions to inform our analysis of potential savings to the federal government related to Social Security retirement:

Full Retirement Age (FRA)

For the purpose of this analysis, full retirement age (FRA) is 67 years old for those born 1960 or later. FRA gradually increases from 66 to 67 for those born between 1955 and 1959.

Average Monthly Retirement Benefit

Average monthly benefit for those delaying retirement is assumed to be $2,500. We developed this assumption based on 2024 average monthly benefit data. For 2024, the median monthly benefit is $1,827 and the 90th percentile is $2,935.

Annual Retirement Increase for Delayed Retirement

The 12-month rate of increase for delayed retirement for those born in 1943 or later is 8%. Every year of delay adds 8.0% (with no compounding, i.e. delaying for 2 years adds 16.0%, etc.).

Cost of Living Adjustment (COLA)

The Social Security Administration sets the annual COLA based on the percentage increase in the Consumer Price Index (CPI). The COLA for 2024 is 3.2%. We assume this for all future years.

Mortality

We used the Life Tables for the United States Social Security Area from 1900-2100[15]. We used 50% of this mortality table as a conservative proxy for the following:

1. The effect of couples surviving; and

2. The relative healthiness of high-earners able to delay retirement.

Percent of beneficiaries who will delay retirement

Schroders retirement survey estimates approximately 10% of non-retired Americans will wait until age 70 to receive Social Security benefits.

Population

We based the demographics of the population on U.S. Census Bureau data.

15 https://www.ssa.gov/oact/NOTES/as120/LifeTables_Body.html

Social Security Disability Assumptions

We developed the following assumptions to inform our analysis of potential savings to the federal government related to Social Security disability income:

Affected population

The SSDI program provides payments for 0.73% more disabled workers in the absence of private disability insurance, given the prevalence of private disability insurance from 2013. [Source: Babbel and Meyer]

Average annual beneficiary amount

In 2023, the average primary beneficiary receives about $18,000 annually. [Source: OASDI]

Population covered by private disability insurance

Approximately 50% of workers are covered by private disability insurance. [Source: The Guardian]

Medicaid Assumptions

We developed the following assumptions to inform our analysis of potential savings to the federal government related to Medicaid:

Private LTCI policyholders – standalone

6.5 million individuals are enrolled in standalone, private LTCI policies. We used experience reporting forms from the National Association of Insurance Commissioners (NAIC) to obtain this figure.

Private LTCI policyholders – hybrid

1.5 million individuals are enrolled in hybrid private LTCI policies. This figure does not include worksite policies. This figure is from the LIMRA 2023 combination product study.

Expected future LTCI claims paid

To estimate expected future LTCI claims, we used actual paid claims calibrated to 2019 to 2023.

Portion of LTCI policyholders that would qualify for Medicaid should they not purchase an LTCI policy

We assume that 5% of LTCI policyholders may have qualified for Medicaid if they had not purchased an LTCI policy.

This estimate is based on actuarial judgement after reviewing certain data. In particular, we reviewed findings from the U.S. Government Accountability Office (GAO) which states in its May 2014 report that 74% of its sample "owned at least some resources that were not countable as part of their financial eligibility determination …" and of that 74 percent, "55 percent … had $20,000 or less in noncountable resources, 27 percent … had noncountable resources between $20,001 and $100,000, and 17 percent … had greater than $100,000 in resources that were not countable toward eligibility."

For more information about ACLI Research, please visit us at:

https://acliresearch.org

Financial Security for Life