



# ISSUE Brief

## Expanding Income Protection Coverage for Working Americans Would Help Strengthen the SSDI Program

### TWEETS @AHIPCoverage

- Disability income protection coverage spares many Americans from financial hardship due to illness or injury
- With disability coverage, Americans can insure their most valuable asset: the ability to earn an income
- AHIP Issue Brief: Expanding Income Protection Coverage for American Workers and Families
- Here's why it's important to expand private disability coverage

### KEY TAKEAWAYS



The Social Security Trustees project that,

absent congressional action to strengthen the Social Security Disability Insurance (SSDI) program, the Disability Insurance (DI) Trust Fund will deplete its assets in late 2016. If that were allowed to happen, Social Security's DI Trust Fund would have only enough incoming payroll tax revenue to pay about 80 percent of scheduled benefits.



The risk of disabling illness or injury is

significant, and the financial repercussions can be severe. Just over one in four of the nation's 20-year olds will become disabled before reaching age 67.<sup>1</sup> Private disability income protection coverage provides crucial financial protection against loss of income due to illness or injury. But, most working Americans do not have income protection coverage.



Private disability income protection coverage also

significantly reduces the burden on public programs that provide assistance to disabled workers – such as the SSDI program, Medicare, Medicaid, the Temporary Assistance to Needy Families (TANF) program and the Special Nutrition Assistance Program (SNAP).



Federal policies to expand private

disability income protection would further reduce the burden on public programs and help to restore the long-term solvency of the SSDI program.

# Background

Americans routinely insure their cars and homes. But, too few insure their most valuable asset: the ability to earn an income. According to the Bureau of Labor Statistics, two-thirds of private industry employees do not have employer-sponsored long-term disability coverage.<sup>2</sup> Additionally, more than half of American workers indicate that they know not very much or nothing at all about disability income insurance.<sup>3</sup> As a result, many Americans lack disability income protection, resulting in a significant risk of financial hardship.

## Overview of Disability Income Protection Coverage

Private disability income protection provides tens of millions of Americans with coverage that complements the safety net provided by the SSDI program. Approximately 39 percent of U.S. workers in private industry are covered by employer-sponsored short-term disability coverage, while 33 percent receive long-term disability insurance through their employers.<sup>4</sup> This coverage provides a level of disability income that spares many Americans from financial hardship.

A recent survey clearly shows the value of private income protection to working Americans. This survey of group disability insurers comprising approximately 75 percent of the commercial disability insurance marketplace indicates that approximately 653,000 individuals received long-term disability payments in 2013 from private insurers participating in the survey. Participating insurers paid a total of \$9.8 billion in long-term disability benefits that year. Twenty-eight percent of these claimants receiving private disability income benefits were not receiving SSDI benefits. Moreover, more than 95 percent of reported disabilities were not work-related and, therefore, not eligible for benefits under workers compensation.<sup>5</sup>

Private short-term disability coverage typically pays benefits for 13 to 26 weeks based on a specified percentage of the employee's pre-disability income – typically 60 percent – after sick leave has been exhausted. Circumstances that may trigger the

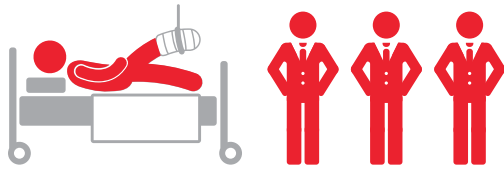
payment of short-term disability benefits include temporary musculoskeletal or connective tissue conditions, pregnancies, and other illnesses or conditions that are resolved within a relatively short timeframe, often allowing the employee to return to work before benefits are exhausted.

The valuable protection offered by short-term disability coverage can be purchased at a reasonable price – an average of \$214 per covered employee annually in 2013 when purchased as group coverage by employers.<sup>6</sup> This short-term protection can be purchased in combination with long-term disability coverage as part of a seamless package, with the short-term and long-term benefits coordinated to ensure that disabled workers can meet their daily expenses and avoid financial hardship. Long-term disability benefits continue anywhere from five years to the remainder of an individual's life. Long-term disability insurance allows workers to sustain themselves financially if an illness, injury, or disability takes them out of the workplace for an extended period of time. In 2013, for new sales the average annual group premium for long-term disability coverage was \$226 per covered employee.<sup>2</sup>

## Disability Income Insurer Return-to-Work Strategies

In addition to replacing lost income for claimants in a timely fashion, private disability income insurers have been very proactive in developing return-to-work programs that help disabled workers move forward

**A typical American salary can be protected for about \$300 a year.**



**Over 1 in 4 of the nation's 20-year olds will become disabled before reaching age 67.**



**40 Million Employees**

**Approximately 1/3 of the U.S. private sector workforce is covered by private, employer-sponsored group long-term disability insurance.**

post-traumatic stress. Strategies for supporting employees facing these challenges include allowing time and space for breaks, planning work schedules to avoid the worst times for pain and fatigue, and creating check lists for job tasks to help deal with temporary memory loss. Insurers work with employers to help them anticipate potential difficulties and work around them.

## Modifying Work Environments to Address Functional Limitations

Musculoskeletal conditions, such as arthritis, are increasingly a factor in the workplace as the U.S. workforce gets collectively older. Workers with these conditions often have difficulties with strength and range of motion that can make it difficult for them to remain in the same job. Insurers work with employers to find successful ways to modify job responsibilities and work stations to allow workers to overcome physical limits associated with arthritis and other musculoskeletal conditions.

## Facilitating Part-Time Work

In some cases, an employee may be able to continue carrying out the duties of his or her job, but may have limitations that prevent him or her from working effectively on a full-time basis. Such limitations might be most common for older workers. Disability insurers help employers and employees develop flexible part-time schedules that are suited to the needs and preferences of the affected employee.

## Enhancing Support for Workers on Long-Term Disability

Disability insurers typically seek first to help disabled employees return to their previous job with their current employer. When an employee cannot return to his or her previous job or employer, insurers can help the employee prepare for and find another job, begin a new career,

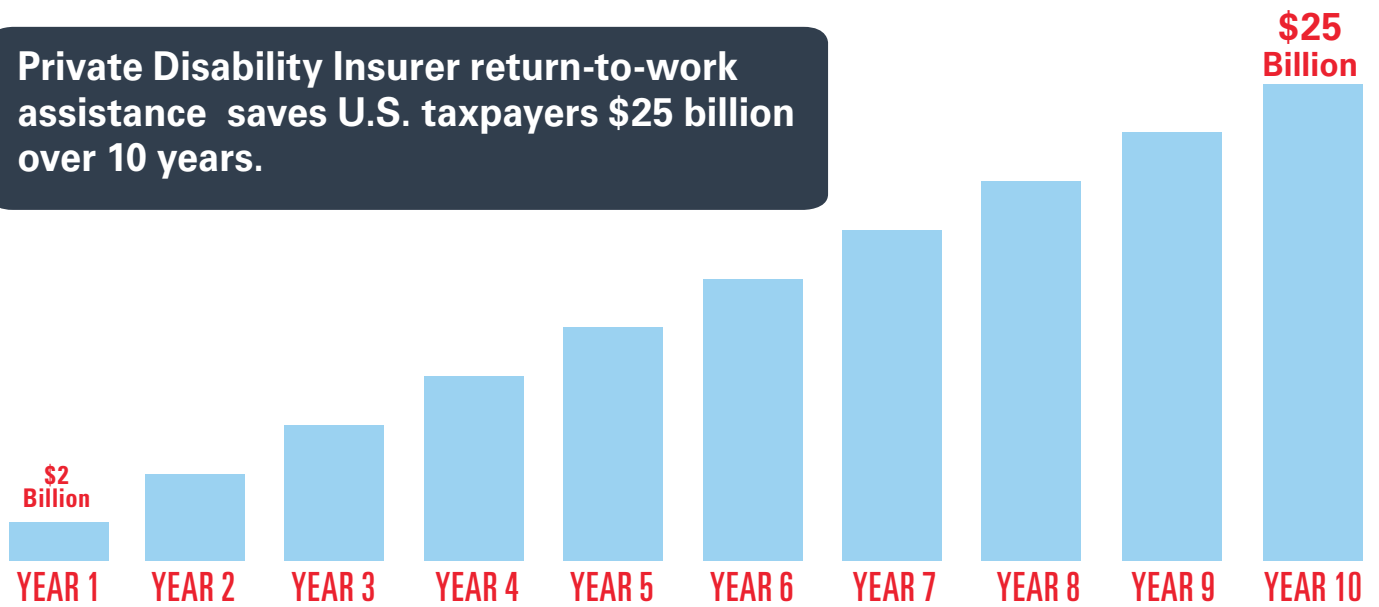
when they are prepared to reclaim their financial self-sufficiency. This can be an invaluable tool in helping to maintain the productivity of America's businesses. This role has become more important with the growing impact of employees with chronic diseases and baby boomers delaying retirement.

A 2010 AHIP report<sup>7</sup>, based on interviews with experts at AHIP member companies, describes trends and innovations in disability income protection. Several examples are highlighted below.

### Assisting Cancer Patients and Survivors

Cancer accounts for a large share of long-term disability claims. Most cancer patients ultimately return to work, and it is becoming increasingly common for cancer patients to continue working while they undergo treatment. Employees who remain at work during cancer treatment or return to work after treatment can face fatigue, difficulties with memory and concentration, pain, and even

**Private Disability Insurer return-to-work assistance saves U.S. taxpayers \$25 billion over 10 years.**



or start a business. Insurers provide vocational counseling and help with resume writing, networking, and interviewing. Counselors also help participants identify job goals and potential employers, identify gaps in skills, and access needed training and education.

### Integrating Health and Disability Support Services

A number of companies that offer both health care and disability insurance support services are integrating and coordinating these services to ensure that workers receive the most effective care for their chronic conditions and can return to work as soon as possible. This approach recognizes the value of addressing all of an individual's medical, social service, and behavioral health needs in a coordinated way, rather than in separate silos.

One company, for example, has established a program through which enrollees who have both health and disability coverage can work with nurse case managers who act as health advocates.

Case managers help workers navigate the health care system and access the health care, disease management, and disability-related services they need. When employees feel ready to return to work, vocational rehabilitation counselors coordinate with employers to develop return-to-work plans suited to the employees' needs and abilities. Such plans often include modified work schedules that help employees transition gradually from part-time to full-time work, use of ergonomic work stations and chairs, and changes to physical requirements (such as eliminating heavy lifting).

Another company with an integrated health and disability program makes it possible, with the consent of employees, for health and disability team members to share information about the employees' health and functional status on a real-time basis so they can return to work as soon as possible. This program also includes a role for case managers in consulting with physicians about including return-to-work considerations in patients' treatment plans.

## Private income protection coverage reduces the burden on SSDI and other public programs

Two studies by Charles River Associates identify and quantify how private disability income protection reduces the burden on public programs that provide assistance to Americans with disabilities. A 2013 Charles River Associates analysis estimated that, at current coverage levels, private insurer disability management and return-to-work assistance helps many ill or injured Americans get back to work, and will save the federal government \$25 billion over 10 years. Almost half of these savings will 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>8</sup> A Charles River Associates analysis carried out in 2011 indicated that the receipt of private disability income replacement benefits lifts up to 575,000 American families out of poverty each year and saves 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>9</sup> Although the studies are focused on the financial benefits that accrue to the federal government as a result of disability income coverage, their findings are applicable as well to state-funded or state-administered public programs.

## Expanding private income protection would help to preserve SSDI benefits for current and future beneficiaries

Building on their earlier work, Charles River Associates found that each 10 percentage point increase in the number of working Americans covered would provide crucial benefits for up to 20,000 to 25,000 more workers and bring about an additional \$2.8 billion to \$3.5 billion in savings to the SSDI program over the next 10 years.<sup>10</sup>

### Recommendation

Policymakers should consider proposals that support and expand private disability income protection for a greater number of working Americans. In addition to providing income protection to these workers and their families, this would also help the long-term fiscal strength of the SSDI program and bring about savings to other public programs that assist individuals with disabilities.

# End Notes

- 1 Social Security Administration, *Basic Facts*, April 4, 2012.
- 2 U.S. Bureau of Labor Statistics, *Insurance Benefits, Access, Participation and Take-Up Rates*, National Compensation Survey, March 2013.
- 3 Consumer Federation of America and Unum, *Employee Knowledge and Attitudes About Employer-Provided Disability Insurance*, April 30, 2012. Opinion Research Corporation survey of 1,191 full-time or part-time adult employees conducted March-April 2012, published April 30, 2012.
- 4 U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States*, March 2014.
- 5 Council for Disability Awareness, *2014 Long-Term Disability Insurance Claims Survey*, September 2013.
- 6 GenRe, *U.S. Group Disability and Group Term Life Market Survey, Summary of 2013 Results*, April 2014.
- 7 AHIP Center for Policy and Research, *Trends and Innovations in Disability Income Insurance*, January 2010.
- 8 Charles River Associates, *Private Disability Insurance and Return-to-Work: Cost Savings to SSDI and Other Federal Programs*, September 2013.
- 9 Charles River Associates, *Financial Security for Working Americans: An Economic Analysis of Insurance Products in Workplace Benefits Programs*, July 2011.
- 10 Charles River Associates, *The Fiscal Benefits of Private Disability Income Protection Coverage to the SSDI Program: Current Situation and a Proposal for Expansion*, publication forthcoming soon.

## Related Topic

### Maintaining the Disability Insurance Trust Fund's Solvency



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