

The Benefits of Private Disability Income Protection Coverage to State Budgets: Overview and Details for Four States

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Executive Summary

Private disability income protection coverage saves working Americans – and their families – from financial hardship when a disabling illness or injury prevents an employee from working for an extended period of time. Insurers providing this coverage also offer comprehensive disability management programs that help impaired workers to remain at, or return to, work when doing so is safe, appropriate, and timely. In addition, this coverage benefits employers by supporting efforts to assemble and retain a stable and productive work force.

Less well understood are the benefits accruing to taxpayers because private income protection coverage decreases the burden on government programs that provide assistance to families when a wage earner is unable to work. Income protection benefits help families avoid reliance on public assistance programs if a wage earner becomes disabled. Working Americans facing a disability who return to work with the assistance of income protection insurers may also avoid the rolls of public programs, or leave those rolls more quickly. By maintaining the standard of living of affected households, income protection coverage also has a positive effect on economic activity and state revenues.

The table below summarizes the overall annual fiscal effect of income protection coverage in four states – Indiana, Maine, North Dakota, and Tennessee. The states selected exhibit different, populations, economic circumstances, state budget conditions, and public assistance programs. Each of the four states also has a lower proportion of workers with disability income coverage than the national average. (In one case – North Dakota – the proportion of covered workers is quite a bit lower than the national average.) While each state is unique, the analysis of state budgetary savings arising from private disability income protection in these four states is relevant to all states.

Table 1: Summary of Benefits to Indiana, Maine, North Dakota, and Tennessee

State	Reducing State Expenditures		Additional Individual Taxes	Total Existing Annual State Benefits	If Additional 10 Percent of Workers Covered	
	Protected from Poverty	Returning to Work			Additional Benefit	New Total State Benefits
Indiana	\$10,000,000	\$16,500,000	\$2,750,000	\$29.2 million	\$12,000,000	\$41.2 million
Maine	\$1,500,000	\$2,300,000	\$575,000	\$4.4 million	\$1,400,000	\$5.8 million
North Dakota	\$1,000,000	\$2,250,000	\$250,000	\$3.5 million	\$3,500,000	\$7.0 million
Tennessee	\$7,200,000	\$11,000,000	\$3,250,000	\$21.4 million	\$7,000,000	\$28.4 million

As Table 1 shows, the reduction in state expenditures is significant, particularly when compared to the number of people affected. These expenditure reductions arise because families are protected from poverty when their income is lost due to a disability episode and because workers with income protection coverage return to work more quickly and at notably higher rates than those not covered. Also notable

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are the additional state revenues contributed by those workers. Expanding the number of employees with income protection coverage would lead to even greater fiscal benefit to the state budgets.

Background

Disability, Poverty, and Public Assistance Programs

When a worker experiences a disability, be it an injury or illness, recovery from the condition is not the only challenge facing the worker's family. A disabling condition, by definition, means that an employee is not able to work as she or he once did, and the employee's family faces the prospect of a dramatic drop in income. This prospect is not remote. The Social Security Administration estimated last year that, "Just over 1 in 4 of today's 20-year-olds will become disabled before reaching age 67."¹ Disability episodes can be long. The average privately-insured disability claim lasts over 30 months. Over the course of their working lives, thirty-five year-old workers have a greater than 20 percent chance of a being disabled for at least three months and, if disabled, a 38 percent chance that the disability will extend to five or more years.²

Most families have inadequate savings to weather the loss of income during a disability episode – even if it is relatively short. The American Payroll Association 2012 survey found that 32 percent of respondents would find it "very difficult," and 36 percent of respondents would find it "somewhat difficult," to "meet financial obligations if your next paycheck were delayed for a week."³ Another 2012 survey found that, "40 percent of respondents stated they probably or certainly could not come up with \$2,000 within the next month."⁴ The *2013 Survey of Consumer Finances* found that only 40 percent of families with incomes below average saved money, one-quarter of families had essentially no assets in excess of liabilities, and 60 percent of families had a median net worth (financial assets plus the value of vehicles and homes, less debt) of less than \$100,000.⁵ Even relatively high-income families can have few liquid assets but high monthly obligations, which leads to stressful financial conditions if employment is interrupted.⁶ Under these circumstances, most families facing a disability preventing employment for more than a few months will face severe financial pressure. Indeed, most families would face poverty and need to access public assistance programs in the absence of private disability income protection coverage.

While workers' compensation programs replace income lost because of injuries on the job, they do not provide compensation when work time is lost because of illnesses or injuries unrelated to work. Ninety-five percent of disability claims are attributed to illnesses and not injuries.⁷ So the vast majority of disability episodes affecting workers are not covered by workers' compensation benefits, which are more limited in amount and duration than standard disability income protection coverage.

Because income protection coverage replaces a significant proportion – 60 percent is common⁸ – of pre-disability income, and because income protection insurers work with employers and health care professionals to help the affected person return to gainful employment, expenditures on public assistance programs such as the Temporary Assistance to Needy Families (TANF), Medicaid, Social Security

¹ Social Security Administration, *Fact Sheet*, at <http://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf>.

² Council for Disability Awareness, *Disability Statistics*, July 2013, http://www.disabilitycanhappen.org/docs/disability_stats.pdf.

³ American Payroll Association, 2012 "Getting Paid in America" Survey Results, http://www.nationalpayrollweek.com/documents/2012SurveyResults_nodemo.pdf.

⁴ Annamarie Lusardi, *The Financial Fragility of American Families*, September 2013, p.3, <http://www.usfinancialcapability.org/downloads/FinancialFragility.pdf>.

⁵ Jesse Bricker, et al., "Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, September 2014, pp. 13 and 12, respectively, <http://www.federalreserve.gov/pubs/bulletin/2014/pdf/scf14.pdf>.

⁶ Greg Kaplan, Giovanni L. Violante, and Justin Weidner, "The Wealthy Hand-to-Mouth," *Brookings Papers on Economic Activity*, Spring 2014, pp. 77-144, especially pp. 101-113.

⁷ Council for Disability Awareness, "2014 Long Term Disability Claims Review," p. 12 for Social Security Disability Insurance population and p. 3 for CDA member company claimants, http://www.disabilitycanhappen.org/research/CDA_LTD_Claims_Survey_2014.pdf.

⁸ America's Health Insurance Plans, Society of Actuaries Disability Chart Book Task Force, The Actuarial Foundation, *Disability Insurance: A Missing Piece in the Financial Security Puzzle*, October 2004, <http://www.ahip.org/Issues/Documents/2004/Disability-Insurance--A-Missing-Piece-in-the-Financial-Security-Puzzle.aspx>.

Disability Insurance, Medicare, and the Supplemental Nutrition Assistance Program (SNAP) are lower.⁹ In addition, the income protection benefits received by affected families have a positive effect on economic activity and tax collections.

This paper documents and quantifies the benefits of private disability income protection to the budgets of four states – Indiana, Maine, North Dakota, and Tennessee.

Methodology Overview

The analysis presented below first outlines the employment, disability, and disability insurance situation in each of the four states that are included in this study – Indiana, Maine, North Dakota, and Tennessee. This provides the quantitative information upon which to base the calculated benefits to the respective state budgets. The investigation then turns to quantifying the public assistance that a family affected by a worker with a disability would likely receive. This focuses on the two public assistance programs with the largest portion of state budget resources allotted – Medicaid and Temporary Assistance to Needy Families (“TANF”). Medicaid provides health care coverage to individuals who have low incomes and limited resources. TANF provides cash assistance to indigent families and supports recipients in seeking employment. Under TANF, states have considerable discretion in administration of the program.

State governments pay for between 25 percent and 50 percent of total Medicaid expenditures, depending on the state’s economic characteristics.¹⁰ State governments also pay for nearly half of the TANF benefits.¹¹ The analysis identifies the total amount of public assistance that each family, on average, would receive if the primary wage earner was unable to work, and it also identifies how much of that amount is paid by the respective state.

The analysis then determines the number of workers in each of the four states that have benefited from private income protection coverage in recent years. From prior research (discussed in more detail in the methodology appendix) we determine the number of families that would face poverty should the wage earner in that family become disabled. Income protection coverage helps these families avoid public assistance completely. We also determine the number of individuals that suffered a disability incident but are now working – but who would not be working in the absence of the help provided by private disability income insurers. The analysis then presents estimates in the reduction of state budget expenditures attributable to income protection coverage for these two groups.

In addition to determining the reduction in state expenditures because of income protection coverage, the coverage increases state revenues above what they would be in its absence. The income provided by benefits paid under this coverage results in higher overall economic activity, higher state sales tax revenues, and higher state income tax receipts. Because thousands of families in each state benefit from the higher incomes, even relatively small additional tax payments per family yield notable additional tax receipts.

Private income protection insurance currently covers a minority of private sector employees – less than one-third nationwide.¹² If more private sector employees had income protection coverage, the benefits to state budgets would increase.

⁹ David F. Babbel, Jaime Cuevas Dermody, Miguel A. Herce, Mark F. Meyer, and Navendu Vasvada, *Financial Security for Working Americans: An Economic Analysis of Insurance Products in Workplace Benefit Programs*, June 2011. David F. Babbel and Mark F. Meyer, *Private Disability Insurance and Return-to-Work: Cost Savings to SSDI and Other Federal Programs*, September 2013.

¹⁰ The Henry J. Kaiser Family Foundation, “State Health Facts, Federal Medicaid Assistance Percentage,” <http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/>.

¹¹ Ken Jacobs, Ian Perry, and Jenifer MacGillvary, “The High Public Cost of Low Wages,” UC Berkeley Labor Center Research Brief, April 2015, p. 4, <http://laborcenter.berkeley.edu/pdf/2015/the-high-public-cost-of-low-wages.pdf>.

¹² BLS, “National Compensation Survey, Employee Benefits in the United States,” March 2011 (Private Industry Table 17), March 2012 (Private Industry Table 16), March 2013 (Private Industry Table 16), and March 2014 (Private Industry Table 16).

Conclusion

Private disability income coverage provides financial support to workers with disabilities that protects families from poverty. Income protection insurers also provide services and supports that help many individuals who suffer a disability to return to work. In these two ways, private income protection coverage provides a public good by decreasing the burden on state-funded programs that serve households in poverty. In addition, income protection coverage increases state sales tax revenues and income tax revenues by providing income during a period of disability and enabling workers with disabilities to maintain a comfortable lifestyle.

Focusing just on the Medicaid and TANF programs, and tax revenues, our analysis identified millions of dollars annually of positive fiscal impact in each of four very different states: Indiana, Maine, North Dakota, and Tennessee. We have no doubt that this analysis has relevance to every state in the country. In fact, in states with larger populations and larger budgets than those selected for this analysis, the positive annual fiscal impact of private income protection coverage is significantly greater in the amount of public program dollars saved and state tax revenue collected.

Because only about a third of workers in private industry have disability income protection coverage – and the proportion of covered workers is lower in each of the states addressed in this analysis - there is significant potential to increase the positive fiscal impact that income protection brings to state budgets. Our analysis found that each 10 percentage point increase in the proportion of covered workers would yield additional annual fiscal benefits in the millions for each of the states analyzed.

Sections for each of the four states detailing our specific findings follow.

The Fiscal Benefits of Income Protection Coverage in Indiana

Private income protection coverage in Indiana currently benefits the state budget by more than \$29.2 million per year through a combination of lower expenditures and higher tax receipts. More specifically:

Table 2: Summary of Benefits to Indiana

Source of Benefit	Amount of Benefit
2,000 Indiana families receive private benefit payments thereby avoiding poverty and at least \$5,000 per year per family in state assistance payments	\$10.0 million
1,500 people have returned to work, relieving state of at least \$11,000 per year per family in state assistance	\$16.5 million
11,000 additional families receive private benefit payments thereby contributing to higher economic activity and tax receipts	\$2.75 million
Total current benefit to Indiana state budget	\$29.2 million
Total benefit to budget if private coverage increases from 2013's ~26% to ~36%	\$41.2 million
Total benefit to budget if private coverage increases from 2013's ~26% to ~46%	\$53.2 million

In addition to the lower expenditures and higher taxes accruing to the state budget, income protection coverage provides substantial advantages for employees and employers. Affected Indiana families obtain significant financial support while the employee recovers from the incident and, where appropriate, the private coverage helps the employee return to work. Indiana employers get valued employees back to the job faster and with less stress. Increasing the portion of Indiana's private sector workers covered by income protection insurance by 10 percentage points would increase the benefits to Indiana's state budget by \$12 million per year.

Employment, Disability, and Insurance in Indiana

Table 3 summarizes the employment, disability, and insurance situation in Indiana from 2011 through 2013. Over these years, employees on private nonfarm payrolls grew by 3 percent. The Social Security Administration reported that between 197,000 and 208,000 people in Indiana were receiving Social Security Disability Insurance ("SSDI") benefits. A survey sponsored by America's Health Insurance Plans ("AHIP") specifically for this research found between 700,000 and 755,000 workers were covered by private group long-term disability insurance.

These covered workers comprise approximately 25 percent of those employed, which is lower than the national participation ratio of just over 30 percent.¹⁴ The survey also found that 13,000 to 14,000 individuals were receiving benefits from group long-term disability insurers.

Table 3: Indiana's Employment, Disability & Insurance

Employment & Disability ¹³	2011	2012	2013
Employees on nonfarm payrolls	2,848,000	2,901,000	2,933,300
Average Weekly Earnings	\$722.40	\$741.89	\$766.18
Disabled Workers on SSDI, Total	196,965	203,621	207,522
Disabled Workers on SSDI, under 35	12,431	12,026	11,412
Disabled Workers on SSDI, 35 to 44	25,420	25,908	25,898
Disabled Workers on SSDI, 45 to 49	22,636	22,434	21,883
Disabled Workers on SSDI, 50 to 54	34,566	35,296	35,477
Disabled Workers on SSDI, 55 to 59	45,000	47,775	49,982
Disabled Workers on SSDI, 60 to FRA	56,912	60,182	62,870
Average Monthly SSDI Benefit	\$1,117.20	\$1,138.01	\$1,154.65
Total Monthly SSDI Benefits in State (000)	\$220,049	\$231,722	\$239,616
Group LTD Covered Lives	699,968	702,122	755,372
Group LTD Covered/Employees	24.6%	24.2%	25.8%
Group LTD Active Claims	13,859	13,691	13,496
Group LTD Active / Workers on SSDI	7.0%	6.7%	6.5%

¹³ Employment & Disability table sources: Employees on nonfarm payrolls: BLS, "Employees on Nonfarm Payrolls in States and Selected by Major Industry," http://www.bls.gov/sae/eetables/sae_annavg113.pdf; Average Weekly Earnings: BLS, "Average Hours and Earnings of All Employees on Private Non-Farm Payrolls, by State," http://www.bls.gov/sae/eetables/sae_annavg413.pdf; Disabled Workers on SSDI: SSA, "Annual Statistical Reports on SSDI," Table 27 for each year (all disabled workers column); Average Monthly SSDI Benefit: SSA, "Annual Statistical Reports on SSDI," Table 16 for each year; Total Monthly SSDI Benefits in State: SSA, "Annual Statistical Reports on SSDI," Table 13 (workers column) for each year; http://www.ssa.gov/policy/docs/statcomps/di_asr/2011/di_asr11.pdf (2011), http://www.ssa.gov/policy/docs/statcomps/di_asr/2012/di_asr12.pdf (2012), and http://www.ssa.gov/policy/docs/statcomps/di_asr/2013/di_asr13.pdf (2013) Group LTD Covered Lives & Active Claims: "AHIP State Disability Research Report," December 2014.

¹⁴ BLS, "National Compensation Survey, Employee Benefits in the United States," March 2011 (Private Industry Table 17), March 2012 (Private Industry Table 16), and March 2013 (Private Industry Table 16).

Indiana Public Assistance Expenditures for Individuals with Disabilities

The 13,000 to 14,000 individuals receiving private income protection benefit payments avoid or use substantially less public assistance than the approximately 200,000 workers in Indiana receiving only SSDI benefits. The state funded portion of public assistance for the disabled in Indiana consists primarily of the Medicaid and Temporary Assistance to Needy Families programs.

Table 4: Indiana's Expenditures & Taxes

Medicaid: As Table 4 shows, Medicaid is a large part of Indiana's state expenditures, and the disabled are a significant portion of Indiana's Medicaid enrollment. Medicaid spent over \$15,000 per year for each disabled beneficiary in Indiana.¹⁵ The state share of Medicaid expenditures in Indiana was approximately one-third in the past several years. This means that each disabled individual on Medicaid costs the state of Indiana approximately \$5,000 per year.

State Expenditures & Taxes¹⁵	2011	2012	2013
Total Medicaid Enrollment	978,400	1,015,300	1,033,000
Elderly and Disabled Enrollment	253,000	271,600	279,700
Federal Medicaid Assistance Percentage	66.52%	66.96%	67.16%
Families receiving TANF	27,877	17,667	12,962
Federal TANF Funds (000)	\$135,876	\$101,225	\$95,424
State TANF MOE (000)	\$156,354	\$121,094	\$121,547
State TANF MOE per Family	\$5,609	\$6,854	\$9,377
Direct General Expenditures (in millions)	\$26,437	\$26,195	\$28,171
Medicaid	\$6,603	\$7,178	\$8,789
Public Assistance	\$382	\$386	\$385
Total Taxes (in millions)	\$13,275	\$14,125	\$14,462
General Sales Tax	\$6,218	\$6,622	\$6,796
Individual Income Taxes	\$4,586	\$4,766	\$4,978

Temporary Assistance to Needy Families ("TANF"): The other major public assistance program available to workers suffering from a disability entailing a significant amount of state funding is the TANF program. As Table 4 shows, Indiana has experienced a more than 50 percent decline in the number of families receiving TANF from 2011 to 2013. The cost of TANF benefits is split between the federal and state governments, but the state is required to maintain a certain level of expenditures for the program – the Maintenance of Effort ("MOE") amount. While reducing the number of TANF recipients does not occasion a corresponding decrease in state TANF expenditures, it does free up funds to use elsewhere in the program. The state TANF MOE amount per family ranged between \$5,600 and \$9,400 per year.

Including only the state's share of Medicaid and TANF, each family where the affected individual has returned to work and is therefore not receiving public benefits saves the state at least \$11,000 per year.

Indiana Families Protected from Poverty

We calculate that approximately 4,000 families in Indiana coping with a disability are receiving only private income protection benefit payments – they are not eligible for SSDI or other programs. Without the private insurance payments, at least 50 percent of these families (at least 2,000) would face poverty and need to rely on federal and state funded assistance programs.¹⁷ These families likely would not be

¹⁵ State Expenditures & Taxes table sources: Medicaid Enrollment: Snyder, Rudowitz, Ellis, & Roberts, *Medicaid Enrollment: December 2013 Data Snapshot*, The Kaiser Commission on Medicaid and the Uninsured, June 2014 Issue Brief, Table A-2 for Total Enrollment (p. 10) and Table A-7 for Elderly and Disabled Enrollment (p. 15); Federal Medicaid Assistance Percentage: The Henry J. Kaiser Family Foundation, "State Health Facts, Federal Medicaid Assistance Percentage," <http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/> for state and year; Families receiving TANF (average monthly): DH&HS, Administration for Children & Families, "TANF Enrollment by State," for the stated years.

http://www.acf.hhs.gov/sites/default/files/ofa/2011_15months_tanssp_0.xls

http://www.acf.hhs.gov/sites/default/files/ofa/2012_15months_tanssp.xls

http://www.acf.hhs.gov/sites/default/files/main/2013_15months_tanssp.pdf

Federal TANF Funds and State TANF MOE: DH7HS, Administration for Children & Families, Office of Family Assistance, "Fiscal Year 20xx TANF Financial Data," for 2011 through 2013.

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2011>

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2012>

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2013>

Direct General Expenditures and Total Taxes: National Association of State Budget Officials, State Expenditure Report for 2012-2013 and 2013-2014, Table 1 for Direct General Expenditures, Table 28 for Medicaid, Table 18 for Public Assistance, and Table 54 for Taxes.

<https://www.nasbo.org/sites/default/files/State%20Expenditure%20Report%20%28Fiscal%202011-2013%20Data%29.pdf>

<https://www.nasbo.org/sites/default/files/State%20Expenditure%20Report%20%28Fiscal%202012-2014%29S.pdf>

¹⁶ The Henry J. Kaiser Family Foundation, "Medicaid Spending per Enrollee (Full or Partial Benefit), for listed state, disabled, and FY 2011," <http://kff.org/medicaid/state-indicator/medicaid-spending-per-enrollee/>.

¹⁷ David F. Babbel, Jaime Cuevas Dermody, Miguel A. Herce, Mark F. Meyer, and Navendu Vasvada, *Financial Security for Working Americans: An Economic Analysis of Insurance Products in Workplace Benefit Programs*, June 2011, especially

eligible for the full \$11,000 per year in state funded benefits outlined above, but state expenditures of \$5,000 per year per family is a minimum figure. Private income protection coverage, therefore, lowers public assistance expenditures in Indiana for these 2,000 families by \$10 million per year.

Indiana Employees Returning to Work

Private disability income protection coverage facilitates affected employees returning to work in two ways. First, the mere fact of substantial and coordinated financial support for the affected family provided shortly after the onset of a disability results in a higher probability that the affected individual will reenter the job market. Second, private disability insurers have implemented and systematized comprehensive disability management programs. These programs work with the employee, the employer and the employee's physician to align interests and expectations and thereby encourage the re-employment of an employee experiencing a disability. We calculate that at least 1,500 people in Indiana are back on the job and earning a salary because of the return-to-work efforts of private income protection insurers.¹⁸ In Indiana, for each family where the affected individual returns to work the state budget saves at least \$11,000 per year – this amounts to a \$16.5 million per year benefit for the state budget.

Additional Tax Revenue from Employees

Another approximately 11,000 Indiana families received private income protection benefit payments, which average 60 percent of pre-disability income. The private insurance benefits are substantially above the rate at which SSDI replaces pre-disability income.¹⁹ At Indiana's 7 percent sales tax and 3.4 percent income tax rate, this higher income leads to higher sales tax and individual income tax receipts. Although the exact amount cannot be determined with the available data, if each of the 11,000 affected families paid an extra \$250 per year in taxes, Indiana tax receipts would increase by \$2.75 million per year.

Expanding Private Income Protection Coverage in Indiana

If Indiana employees increased their participation in private income protection coverage by ten percentage points, from approximately 25 percent to 35 percent, the Indiana state budget would benefit by another \$12 million per year.

pp. 38-40 and pp. 52-67.

¹⁸ This analysis is based on David F. Babbel and Mark F. Meyer, *Private Disability Insurance and Return-to-Work: Cost Savings to SSDI and Other Federal Programs*, September 2013.

¹⁹ The exact amount depends on both the age and the income history of the beneficiary. At the high end, SSDI benefits replace about 50 percent of pre-disability income – for an older, low salary person. The replacement income percentage declines rapidly as the beneficiary has a short work history and a higher salary. See, Babbel, *et al.*, 2011, pp. 18-24.

The Fiscal Benefits of Income Protection Coverage in Maine

Private income protection coverage in Maine benefits the state budget by at least \$4.4 million per year through a combination of lower expenditures and higher tax receipts. More specifically:

Table 5: Summary of Benefits to Maine

Source of Benefit	Amount of Benefit
500 Maine families receive private benefit payments thereby avoiding poverty and at least \$3,000 per year per family in state assistance payments	\$1.5 million
350 people have returned to work, relieving state of at least \$6,500 per year per family in state assistance	\$2.3 million
2,300 additional families receive private benefit payments thereby contributing to higher economic activity and tax receipts	\$575 thousand
Total current benefit to Maine state budget	\$4.4 million
Total benefit to budget if private coverage increases from 2013's ~29% to ~39%	\$5.8 million
Total benefit to budget if private coverage increases from 2013's ~29% to ~49%	\$7.2 million

In addition to the lower expenditures and higher taxes accruing to the state budget, the income protection coverage provides substantial advantages for employees and employers. Affected Maine families obtain significant financial support while the employee recovers from the incident and, where appropriate, the private coverage helps the employee return to work. Maine employers get valued employees back to the job faster and with less stress. Increasing the portion of Maine's private sector workers covered by income protection insurance by 10 percentage points would increase the benefits to Maine's state budget by \$1.4 million per year.

Employment, Disability, and Insurance in Maine

Table 6 summarizes the employment, disability, and insurance situation in Maine from 2011 through 2013. Over these years, employees on private nonfarm payrolls grew by 1 percent. The Social Security Administration reported that between 57,000 and 59,000 people in Maine were receiving Social Security Disability Insurance ("SSDI") benefits. A survey sponsored by America's Health Insurance Plans ("AHIP") specifically for this research found between 150,000 and 175,000 workers were covered by private group long-term disability insurance.

Table 6: Maine's Employment, Disability & Insurance

Employment & Disability ²⁰	2011	2012	2013
Employees on nonfarm payrolls	594,700	598,100	601,700
Average Weekly Earnings	\$678.64	\$714.74	\$714.34
Disabled Workers on SSDI, Total	57,511	58,922	59,274
Disabled Workers on SSDI, under 35	4,349	4,279	4,031
Disabled Workers on SSDI, 35 to 44	8,274	8,336	8,299
Disabled Workers on SSDI, 45 to 49	7,436	7,423	7,213
Disabled Workers on SSDI, 50 to 54	10,111	10,441	10,510
Disabled Workers on SSDI, 55 to 59	11,761	12,353	12,919
Disabled Workers on SSDI, 60 to FRA	15,580	16,090	16,392
Average Monthly SSDI Benefit	\$1,030.01	\$1,049.94	\$1,066.27
Total Monthly SSDI Benefits in State (000)	\$59,237	\$61,864	\$63,202
Group LTD Covered Lives	151,188	150,145	174,895
Group LTD Covered/Employees	25.4%	25.1%	29.1%
Group LTD Active Claims	3,175	3,153	2,886
Group LTD Active / Workers on SSDI	5.5%	5.4%	4.9%

These covered workers comprise 25 to 30 percent of those employed, which by 2013 was close to the national participation ratio of just over 30 percent.²¹ The survey also found that 2,900 to 3,200 individuals were receiving benefits from group long-term disability insurers.

²⁰ Employment & Disability table sources: Employees on nonfarm payrolls: BLS, "Employees on Nonfarm Payrolls in States and Selected by Major Industry," http://www.bls.gov/sae/eetables/sae_annavg113.pdf; Average Weekly Earnings: BLS, "Average Hours and Earnings of All Employees on Private Non-Farm Payrolls, by State," http://www.bls.gov/sae/eetables/sae_annavg413.pdf; Disabled Workers on SSDI: SSA, "Annual Statistical Reports on SSDI," Table 27 for each year (all disabled workers column); Average Monthly SSDI Benefit: SSA, "Annual Statistical Reports on SSDI," Table 16 for each year; Total Monthly SSDI Benefits in State: SSA, "Annual Statistical Reports on SSDI," Table 13 (workers column) for each year; http://www.ssa.gov/policy/docs/statcomps/di_asr/2011/di_asr11.pdf (2011), http://www.ssa.gov/policy/docs/statcomps/di_asr/2012/di_asr12.pdf (2012), and http://www.ssa.gov/policy/docs/statcomps/di_asr/2013/di_asr13.pdf (2013) Group LTD Covered Lives & Active Claims: "AHIP State Disability Research Report," December 2014.

²¹ BLS, "National Compensation Survey, Employee Benefits in the United States," March 2011 (Private Industry Table 17), March 2012 (Private Industry Table 16), and March 2013 (Private Industry Table 16).

Maine Public Assistance Expenditures for Individuals with Disabilities

The 2,900 to 3,200 individuals receiving private income protection benefit payments avoid or use substantially less public assistance than the approximately 56,000 workers in Maine receiving only SSDI benefits. The state funded portion of public assistance for the disabled in Maine consists primarily of the Medicaid and Temporary Assistance to Needy Family programs.

Table 7: Maine's Expenditure & Taxes

Medicaid: As Table 7 shows, Medicaid is a large part of Maine's state expenditures, and the disabled are a significant portion of Maine's Medicaid enrollment. Medicaid spent over \$14,000 per year for each disabled beneficiary in Maine.²³ The state share of Medicaid expenditures in Maine was not quite 40 percent in the past several years. This means that each disabled individual on Medicaid costs the state of Maine approximately \$5,000 per year.

State Expenditures & Taxes ²²	2011	2012	2013
Total Medicaid Enrollment	287,800	281,800	266,900
Elderly and Disabled Enrollment	75,700	77,100	77,300
Federal Medicaid Assistance Percentage	63.80%	63.27%	62.57%
Families receiving TANF	15,490	18,410	28,289
Federal TANF Funds (000)	\$81,387	\$74,703	\$45,828
State TANF MOE (000)	\$48,166	\$40,296	\$40,296
State TANF MOE per Family	\$3,109	\$2,189	\$1,424
Direct General Expenditures (in millions)	\$8,274	\$8,106	\$7,679
Medicaid	\$2,341	\$2,334	\$2,509
Public Assistance	\$217	\$207	\$180
Total Taxes (in millions)	\$2,945	\$3,016	\$3,094
General Sales Tax	\$976	\$1,030	\$1,037
Individual Income Taxes	\$1,415	\$1,434	\$1,522

Temporary Assistance to Needy Families ("TANF"): The other major public assistance program available to workers suffering from a disability entailing a significant amount of state funding is the TANF program. As Table 7 shows, Maine has experienced an 80 percent increase in the number of families receiving TANF from 2011 to 2013. The cost of TANF benefits are split between the federal and state governments, but the state is required to maintain a certain level of expenditures for the program – the Maintenance of Effort ("MOE") amount. While increasing the number of TANF recipients does not occasion a corresponding increase in state TANF expenditures, it does consume funds that might be used elsewhere in the program. The state TANF MOE amount per family ranged between \$1,500 and \$3,000 per year. Maine also has a separate state program, called ASPIRE-TANF, focused on employment and training programs that provided an average \$4,000 per year in additional support for covered families in 2011.²⁴

Including only the state's share of Medicaid and TANF (and not the ASPIRE-TANF separate program), each family where the affected individual has returned to work and is therefore not receiving public benefits saves the state at least \$6,500 per year.

²² State Expenditures & Taxes table sources: Medicaid Enrollment: Snyder, Rudowitz, Ellis, & Roberts, *Medicaid Enrollment: December 2013 Data Snapshot*, The Kaiser Commission on Medicaid and the Uninsured, June 2014 Issue Brief, Table A-2 for Total Enrollment (p. 10) and Table A-7 for Elderly and Disabled Enrollment (p. 15); Federal Medicaid Assistance Percentage: The Henry J. Kaiser Family Foundation, "State Health Facts, Federal Medicaid Assistance Percentage," <http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/> for state and year; Families receiving TANF (average monthly): DH&HS, Administration for Children & Families, "TANF Enrollment by State," for the stated years.

http://www.acf.hhs.gov/sites/default/files/ofa/2011_15months_tanssp_0.xls

http://www.acf.hhs.gov/sites/default/files/ofa/2012_15months_tanssp.xls

http://www.acf.hhs.gov/sites/default/files/main/2013_15months_tanssp.pdf

Federal TANF Funds and State TANF MOE: DH7HS, Administration for Children & Families, Office of Family Assistance, "Fiscal Year 20xx TANF Financial Data," for 2011 through 2013.

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2011>

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2012>

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2013>

Direct General Expenditures and Total Taxes: National Association of State Budget Officials, State Expenditure Report for 2012-2013 and 2013-2014, Table 1 for Direct General Expenditures, Table 28 for Medicaid, Table 18 for Public Assistance, and Table 54 for Taxes.

<https://www.nasbo.org/sites/default/files/State%20Expenditure%20Report%20%28Fiscal%202011-2013%20Data%29.pdf>

<https://www.nasbo.org/sites/default/files/State%20Expenditure%20Report%20%28Fiscal%202012-2014%29S.pdf>

²³ The Henry J. Kaiser Family Foundation, "Medicaid Spending per Enrollee (Full or Partial Benefit), for listed state, disabled, and FY 2011," <http://kff.org/medicaid/state-indicator/medicaid-spending-per-enrollee/>.

²⁴ Maine Department of Health and Human Services, Office for Family Independence, "ASPIRE-TANF Program Rules," last amended April 2014, www.maine.gov/sos/cec/rules/10/144/144c607.doc.

Maine Families Protected from Poverty

We calculate that approximately 900 to 1,000 families in Maine coping with a disability are receiving only private income protection benefit payments – they are not eligible for SSDI or other programs. Without the private insurance payments, at least 50 percent of these families (about 500) would face poverty and need to rely on federal and state funded assistance programs.²⁵ These families likely would not be eligible for the full \$6,500 per year in state funded benefits outlined above, but state expenditures of \$3,000 per year per family is a minimum figure. Private income protection coverage, therefore, lowers public assistance expenditures for these 500 families by \$1.5 million per year.

Maine Employees Returning to Work

Private disability income protection coverage facilitates affected employees returning to work in two ways. First, the mere fact of substantial and coordinated financial support for the affected family provided shortly after the onset of a disability results in a higher probability that the affected individual will reenter the job market. Second, private disability insurers have implemented and systematized **comprehensive disability management** programs. These programs work with the employee, the employer and the employee's physician to align interests and expectations and thereby encourage the re-employment of an employee experiencing a disability. We calculate that at least 350 people in Maine are back on the job and earning a salary because of private disability income protection coverage.²⁶ In Maine, for each family where the affected individual returns to work the state budget saves approximately \$6,500 per year – this amounts to a \$2.3 million per year benefit for the state budget.

Additional Tax Revenue from Employees

Another approximately 2,300 Maine families received private income protection benefit payments, which average 60 percent of pre-disability income. The private insurance benefits are substantially above the rate at which SSDI replaces pre-disability income.²⁷ At Maine's 5.5 percent sales tax and 6.5 percent to 7.95 percent income tax rates, this higher income leads to higher sales tax and individual income tax receipts. Although the exact amount cannot be determined with the available data, if each of the 2,300 affected families paid an extra \$250 per year in taxes, Maine tax receipts would increase by about \$575,000 per year.

Expanding Private Income Protection Coverage in Maine

If Maine employees increased their participation in private disability insurance by ten percentage points, from approximately 29 percent to 39 percent, the Maine state budget would benefit by at least another \$1.4 million per year.

²⁵ David F. Babbel, Jaime Cuevas Dermody, Miguel A. Herce, Mark F. Meyer, and Navendu Vasvada, *Financial Security for Working Americans: An Economic Analysis of Insurance Products in Workplace Benefit Programs*, June 2011, especially pp. 38-40 and pp. 52-67.

²⁶ This analysis is based on David F. Babbel and Mark F. Meyer, *Private Disability Insurance and Return-to-Work: Cost Savings to SSDI and Other Federal Programs*, September 2013.

²⁷ The exact amount depends on both the age and the income history of the beneficiary. At the high end, SSDI benefits replace about 50 percent of pre-disability income – for an older, low salary person. The replacement income percentage declines rapidly as the beneficiary has a short work history and a higher salary. See, Babbel, *et al.*, 2011, pp. 18-24.

The Fiscal Benefits of Income Protection Coverage in North Dakota

Private income protection coverage in North Dakota benefits the state budget by at least \$3.5 million per year through a combination of lower expenditures and higher tax receipts. More specifically:

Table 8: Summary of Benefits to North Dakota

Source of Benefit	Amount of Benefit
200 North Dakota families receive private benefit payments thereby avoiding poverty and at least \$5,000 per year per family in state assistance payments	\$1.0 million
150 people have returned to work, relieving state of at least \$15,000 per year per family in state assistance	\$2.3 million
1,000 additional families receive private benefit payments thereby contributing to higher economic activity and tax receipts	\$250 thousand
Total current benefit to North Dakota state budget	\$3.5 million
Total benefit to budget if private coverage increases from 2013's ~9% to ~19%	\$7.0 million
Total benefit to budget if private coverage increases from 2013's ~9% to ~29%	\$10.5 million

In addition to the lower expenditures and higher taxes accruing to the state budget, income protection coverage provides substantial advantages for employees and employers. Affected North Dakota families obtain significant financial support while the employee recovers from the incident and, where appropriate, the private coverage helps the employee return to work. North Dakota employers get valued employees back to the job faster and with less stress. Increasing the portion of North Dakota's private sector workers covered by income protection insurance by 10 percentage points – a doubling of the portion covered – would increase the benefits to North Dakota's state budget by \$3.5 million per year.

Employment, Disability, and Insurance in North Dakota

Table 9 summarizes the employment, disability, and insurance situation in North Dakota from 2011 through 2013. Over these years, employees on private nonfarm payrolls grew by 12 percent. The Social Security Administration reported that approximately 14,000 people in North Dakota were receiving Social Security Disability Insurance ("SSDI") benefits. A survey sponsored by America's Health Insurance Plans ("AHIP") specifically for this research found between 62,000 and 78,000 workers were covered by private group long-term disability insurance. These covered workers comprised just 8 percent to 9 percent of those employed, which is notably lower than the national participation ratio of just over 30 percent.²⁹ The survey also found that 1,100 to 1,300 individuals were receiving benefits from group long-term disability insurers.

Table 9: North Dakota's Employment, Disability & Insurance

Employment & Disability ²⁸	2011	2012	2013
Employees on nonfarm payrolls	396,600	429,000	444,300
Average Weekly Earnings	\$731.45	\$799.23	\$850.13
Disabled Workers on SSDI, Total	13,989	14,187	14,135
Disabled Workers on SSDI, under 35	1,139	1,131	1,100
Disabled Workers on SSDI, 35 to 44	1,675	1,697	1,681
Disabled Workers on SSDI, 45 to 49	1,481	1,381	1,297
Disabled Workers on SSDI, 50 to 54	2,437	2,405	2,382
Disabled Workers on SSDI, 55 to 59	2,986	3,115	3,217
Disabled Workers on SSDI, 60 to FRA	4,271	4,458	4,458
Average Monthly SSDI Benefit	\$1,034.48	\$1,051.43	\$1,065.73
Total Monthly SSDI Benefits in State (000)	\$14,471	\$14,917	\$15,064
Group LTD Covered Lives	61,846	75,761	77,703
Group LTD Covered/Employees	15.6%	17.7%	17.5%
Group LTD Active Claims	1,236	1,121	1,282
Group LTD Active / Workers on SSDI	8.8%	7.9%	9.1%

²⁸ Employment & Disability table sources: Employees on nonfarm payrolls: BLS, "Employees on Nonfarm Payrolls in States and Selected by Major Industry," http://www.bls.gov/sae/eetables/sae_annavg113.pdf; Average Weekly Earnings: BLS, "Average Hours and Earnings of All Employees on Private Non-Farm Payrolls, by State," http://www.bls.gov/sae/eetables/sae_annavg413.pdf; Disabled Workers on SSDI: SSA, "Annual Statistical Reports on SSDI," Table 27 for each year (all disabled workers column); Average Monthly SSDI Benefit: SSA, "Annual Statistical Reports on SSDI," Table 16 for each year; Total Monthly SSDI Benefits in State: SSA, "Annual Statistical Reports on SSDI," Table 13 (workers column) for each year; http://www.ssa.gov/policy/docs/statcomps/di_asr/2011/di_asr11.pdf (2011), http://www.ssa.gov/policy/docs/statcomps/di_asr/2012/di_asr12.pdf (2012), and http://www.ssa.gov/policy/docs/statcomps/di_asr/2013/di_asr13.pdf (2013) Group LTD Covered Lives & Active Claims: "AHIP State Disability Research Report," December 2014.

²⁹ BLS, "National Compensation Survey, Employee Benefits in the United States," March 2011 (Private Industry Table 17), March 2012 (Private Industry Table 16), and March 2013 (Private Industry Table 16).

North Dakota Public Assistance Expenditures for Individuals with Disabilities

The 1,100 to 1,200 individuals receiving private income protection benefit payments avoid or use substantially less public assistance than the approximately 14,000 workers in North Dakota receiving only SSDI benefits. The state funded portion of public assistance for the disabled in North Dakota consists primarily of the Medicaid and Temporary Assistance to Needy Families programs.

Table 10: North Dakota's Expenditures & Taxes

State Expenditures & Taxes ³⁰	2011	2012	2013
Total Medicaid Enrollment	65,100	64,900	64,400
Elderly and Disabled Enrollment	18,600	18,700	18,800
Federal Medicaid Assistance Percentage	60.35%	55.40%	52.27%
Families receiving TANF	1,828	1,651	1,446
Federal TANF Funds (000)	\$25,861	\$28,269	\$24,853
State TANF MOE (000)	\$9,069	\$9,069	\$9,069
State TANF MOE per Family	\$4,961	\$5,493	6,272
Direct General Expenditures (in millions)	\$5,017	\$6,020	\$5,712
Medicaid	\$716	\$730	\$782
Public Assistance	\$7	\$6	\$5
Total Taxes (in millions)	\$1,707	\$2,520	\$2,636
General Sales Tax	\$782	\$1,154	\$1,296
Individual Income Taxes	\$428	\$430	\$616

Medicaid: As Table 10 shows, Medicaid is a large part of North Dakota's state expenditures, and the disabled are a significant portion of North Dakota's Medicaid enrollment. Medicaid spent over \$25,000 per year for each disabled beneficiary in North Dakota.³¹ The state share of Medicaid expenditures in North Dakota was 40 percent or more in the past several years. This means that each disabled individual on Medicaid costs the state of North Dakota \$10,000 to \$12,500 per year.

Temporary Assistance to Needy Families ("TANF"): The other major public assistance program available to workers suffering from a disability entailing a significant amount of state funding is the TANF program. As Table 10 shows, North Dakota has experienced a 20 percent decline in the number of families receiving TANF from 2011 to 2013. The cost of TANF benefits is split between the federal and state governments, but the state is required to maintain a certain level of expenditures for the program – the Maintenance of Effort ("MOE") amount. While reducing the number of TANF recipients does not occasion a corresponding decrease in state TANF expenditures, it does free up funds to use elsewhere in the program. The state TANF MOE amount per family ranged between \$5,000 and \$6,000 per year.

Including only the state's share of Medicaid and TANF, each family where the affected individual has returned to work and is therefore not receiving public benefits saves the state at least \$15,000 per year.

North Dakota Families Protected from Poverty

We calculate that approximately 400 families in North Dakota coping with a disability are receiving only private income protection benefit payments – they are not eligible for SSDI or other programs. Without the private insurance payments, at least 50 percent of these families (at least 200) would face poverty and need to rely on federal and state funded assistance programs.³² These families likely would not be

³⁰ State Expenditures & Taxes table sources: Medicaid Enrollment: Snyder, Rudowitz, Ellis, & Roberts, *Medicaid Enrollment: December 2013 Data Snapshot*, The Kaiser Commission on Medicaid and the Uninsured, June 2014 Issue Brief, Table A-2 for Total Enrollment (p. 10) and Table A-7 for Elderly and Disabled Enrollment (p. 15); Federal Medicaid Assistance Percentage: The Henry J. Kaiser Family Foundation, "State Health Facts, Federal Medicaid Assistance Percentage," <http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/> for state and year; Families receiving TANF (average monthly): DH&HS, Administration for Children & Families, "TANF Enrollment by State," for the stated years.

http://www.acf.hhs.gov/sites/default/files/ofa/2011_15months_tanssp_0.xls

http://www.acf.hhs.gov/sites/default/files/ofa/2012_15months_tanssp.xls

http://www.acf.hhs.gov/sites/default/files/main/2013_15months_tanssp.pdf

Federal TANF Funds and State TANF MOE: DH&HS, Administration for Children & Families, Office of Family Assistance, "Fiscal Year 20xx TANF Financial Data," for 2011 through 2013.

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2011>

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2012>

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2013>

Direct General Expenditures and Total Taxes: National Association of State Budget Officials, State Expenditure Report for 2012-2013 and 2013-2014, Table 1 for Direct General Expenditures, Table 28 for Medicaid, Table 18 for Public Assistance, and Table 54 for Taxes.

<https://www.nasbo.org/sites/default/files/State%20Expenditure%20Report%20%28Fiscal%202011-2013%20Data%29.pdf>

<https://www.nasbo.org/sites/default/files/State%20Expenditure%20Report%20%28Fiscal%202012-2014%29S.pdf>

³¹ The Henry J. Kaiser Family Foundation, "Medicaid Spending per Enrollee (Full or Partial Benefit), for listed state, disabled, and FY 2011," <http://kff.org/medicaid/state-indicator/medicaid-spending-per-enrollee/>.

³² David F. Babbel, Jaime Cuevas Dermody, Miguel A. Herce, Mark F. Meyer, and Navendu Vasvada, *Financial Security for Working Americans: An Economic Analysis of Insurance Products in Workplace Benefit Programs*, June 2011, especially

eligible for the full \$15,000 per year in state funded benefits outlined above, but a state expenditure of \$5,000 per year per family is a minimum figure. Private income protection coverage, therefore, lowers public assistance expenditures for these 200 families by \$1 million per year.

North Dakota Employees Returning to Work

Private disability income protection coverage facilitates affected employees returning to work in two ways. First, the mere fact of substantial and coordinated financial support for the affected family provided shortly after the onset of a disability results in a higher probability that the affected individual will reenter the job market. Second, private disability insurers have implemented and systematized **comprehensive disability management** programs. These programs work with the employee, the employer and the employee's physician to align interests and expectations and thereby encourage the re-employment of an employee experiencing a disability. At least 150 people in North Dakota are back on the job and earning a salary because of private disability income protection coverage.³³ In North Dakota, for each family whose affected individual returns to work, the state budget saves approximately \$15,000 per year – this amounts to a \$2.25 million per year benefit for the state budget.

Additional Tax Revenue from Employees

Another approximately 1,000 North Dakota families received private income protection benefit payments, which average 60 percent of pre-disability income, along with SSDI benefits. The private insurance benefits are substantially above the rate at which SSDI replaces pre-disability income.³⁴ At North Dakota's 5 percent sales tax and 1.5 percent to 4.0 percent income tax rates, this higher income leads to higher sales tax and individual income tax receipts. Although the exact amount cannot be determined with the available data, if each of the 1,000 families paid an extra \$250 per year in taxes, North Dakota tax receipts would increase by \$250,000 per year.

Expanding Private Income Protection Coverage in North Dakota

If North Dakota employees increased their participation in private income protection coverage by ten percentage points, from approximately 9 percent to 19 percent, the North Dakota state budget would benefit by at least another \$3.5 million per year.

pp. 38-40 and pp. 52-67.

³³ This analysis is based on David F. Babbel and Mark F. Meyer, *Private Disability Insurance and Return-to-Work: Cost Savings to SSDI and Other Federal Programs*, September 2013.

³⁴ The exact amount depends on both the age and the income history of the beneficiary. At the high end, SSDI benefits replace about 50% of pre-disability income – for an older, low salary person. The replacement income percentage declines rapidly as the beneficiary has a short work history and a higher salary. See, Babbel, *et al.*, 2011, pp. 18-24.

The Fiscal Benefits of Income Protection Coverage in Tennessee

Private income protection coverage in Tennessee benefits the state budget by at least \$21.4 million per year through a combination of lower expenditures and higher tax receipts. More specifically:

Table 11: Summary of Benefits to Tennessee

Source of Benefit	Amount of Benefit
2,400 Tennessee families receive private benefit payments thereby avoiding poverty and at least \$3,000 per year per family in state assistance payments	\$7.2 million
1,850 people have returned to work, relieving state of at least \$6,000 per year per family in state assistance	\$11.0 million
13,000 additional families receive private benefit payments thereby contributing to higher economic activity and tax receipts	\$3.2 million
Total current benefit to Tennessee state budget	\$21.4 million
Total benefit to budget if private coverage increases from 2013's ~31% to ~41%	\$28.4 million
Total benefit to budget if private coverage increases from 2013's ~31% to ~51%	\$35.4 million

In addition to the lower expenditures and higher taxes accruing to the state budget, the income protection coverage provides substantial advantages for employees and employers. Affected Tennessee families obtain significant financial support while the employee recovers from the incident and, where appropriate, the private disability coverage helps the employee return to work. Tennessee employers get valued employees back to the job faster and with less stress. Increasing the portion of Tennessee's private sector workers covered by income protection insurance by 10 percentage points would increase the benefits to Tennessee's state budget by \$7 million per year.

Employment, Disability, and Insurance in Tennessee

Table 12 summarizes the employment, disability, and insurance situation in Tennessee from 2011 through 2013. Over these years, employees on private nonfarm payrolls grew by 3.3 percent. The Social Security Administration reported that between 241,000 and 253,000 people in Tennessee were receiving Social Security Disability Insurance ("SSDI") benefits. A survey sponsored by America's Health Insurance Plans ("AHIP") specifically for this research found between 750,000 and 850,000 workers were covered by private group long-term disability insurance. These covered workers comprised 28 percent to 31 percent of those employed, which is just below the national participation ratio of just over 30 percent.³⁶ The survey also found that 15,500 to 17,200 individuals were receiving benefits from group long-term disability insurers.

Table 12: Tennessee's Employment, Disability & Insurance

Employment & Disability ³⁵	2011	2012	2013
Employees on nonfarm payrolls	2,661,400	2,714,000	2,749,700
Average Weekly Earnings	\$711.04	\$712.60	\$715.53
Disabled Workers on SSDI, Total	241,802	250,888	252,532
Disabled Workers on SSDI, under 35	11,968	11,966	11,236
Disabled Workers on SSDI, 35 to 44	29,887	30,737	30,329
Disabled Workers on SSDI, 45 to 49	28,969	29,093	28,352
Disabled Workers on SSDI, 50 to 54	42,462	43,805	43,965
Disabled Workers on SSDI, 55 to 59	54,999	58,480	60,052
Disabled Workers on SSDI, 60 to FRA	73,517	76,807	78,598
Average Monthly SSDI Benefit	\$1,081.53	\$1,101.21	\$1,117.30
Total Monthly SSDI Benefits in State (000)	\$261,517	\$276,279	\$282,153
Group LTD Covered Lives	755,777	774,139	847,537
Group LTD Covered/Employees	28.4%	28.5%	30.8%
Group LTD Active Claims	17,156	16,644	15,594
Group LTD Active / Workers on SSDI	7.1%	6.6%	6.2%

³⁵ Employment & Disability table sources: Employees on nonfarm payrolls: BLS, "Employees on Nonfarm Payrolls in States and Selected by Major Industry," http://www.bls.gov/sae/eetables/sae_annavg113.pdf; Average Weekly Earnings: BLS, "Average Hours and Earnings of All Employees on Private Non-Farm Payrolls, by State," http://www.bls.gov/sae/eetables/sae_annavg413.pdf; Disabled Workers on SSDI: SSA, "Annual Statistical Reports on SSDI," Table 27 for each year (all disabled workers column); Average Monthly SSDI Benefit: SSA, "Annual Statistical Reports on SSDI," Table 16 for each year; Total Monthly SSDI Benefits in State: SSA, "Annual Statistical Reports on SSDI," Table 13 (workers column) for each year; http://www.ssa.gov/policy/docs/statcomps/di_asr/2011/di_asr11.pdf (2011), http://www.ssa.gov/policy/docs/statcomps/di_asr/2012/di_asr12.pdf (2012), and http://www.ssa.gov/policy/docs/statcomps/di_asr/2013/di_asr13.pdf (2013)
Group LTD Covered Lives & Active Claims: "AHIP State Disability Research Report," December 2014.

³⁶ BLS, "National Compensation Survey, Employee Benefits in the United States," March 2011 (Private Industry Table 17), March 2012 (Private Industry Table 16), and March 2013 (Private Industry Table 16).

Tennessee Public Assistance Expenditures for Individuals with Disabilities

The 15,500 to 17,200 individuals receiving private income protection benefit payments avoid or use substantially less public assistance than the approximately 245,000 workers in Tennessee receiving only SSDI benefits. The state funded portion of public assistance for the disabled in Tennessee consists primarily of the Medicaid and Temporary Assistance to Needy Families programs.

Table 13: Tennessee's Expenditures & Taxes

Medicaid: As Table 13 shows, Medicaid is a large part of Tennessee's state expenditures, and the disabled are a significant portion of Tennessee's Medicaid enrollment. Medicaid spent over \$11,500 per year for each disabled beneficiary in Tennessee.³⁸ The state share of Medicaid expenditures in Tennessee was almost one-third in the past several years. This means that each disabled individual on Medicaid costs the state of Tennessee approximately \$4,000 per year.

State Expenditures & Taxes³⁷	2011	2012	2013
Total Medicaid Enrollment	1,324,700	1,313,900	1,273,400
Elderly and Disabled Enrollment	359,800	368,700	362,100
Federal Medicaid Assistance Percentage	65.85%	66.36%	66.13%
Families receiving TANF	62,173	57,765	52,189
Federal TANF Funds (000)	\$215,673	\$216,352	\$159,813
State TANF MOE (000)	\$145,302	\$123,990	\$148,657
State TANF MOE per Family	\$2,337	\$2,146	\$2,848
Direct General Expenditures (in millions)	\$30,228	\$30,419	\$30,491
Medicaid	\$8,968	\$9,333	\$9,399
Public Assistance	\$130	\$122	\$110
Total Taxes (in millions)	\$10,245	\$11,143	\$11,450
General Sales Tax	\$6,112	\$6,500	\$6,608
Individual Income Taxes	\$123	\$120	\$170

Temporary Assistance to Needy Families ("TANF"): The other major public assistance program available to workers suffering from a disability entailing a significant amount of state funding is the TANF program. As Table 13 shows, Tennessee has experienced a 16 percent decline in the number of families receiving TANF from 2011 to 2013. The cost of TANF benefits is split between the federal and state governments, but the state is required to maintain a certain level of expenditures for the program – the Maintenance of Effort ("MOE") amount. While reducing the number of TANF recipients does not occasion a corresponding decrease in state TANF expenditures, it does free up funds to use elsewhere in the program. The state TANF MOE amount per family ranged between \$2,100 and \$2,900 per year. Tennessee also has a separate state program, designated "Families First," providing an average of \$2,500 per year in additional support for covered families in 2011.³⁹

Including only the state's share of Medicaid and TANF (and not the Families First separate program), each family where the affected individual has returned to work and is therefore not receiving public benefits saves the state at least \$6,000 per year.

³⁷ State Expenditures & Taxes table sources: Medicaid Enrollment: Snyder, Rudowitz, Ellis, & Roberts, *Medicaid Enrollment: December 2013 Data Snapshot*, The Kaiser Commission on Medicaid and the Uninsured, June 2014 Issue Brief, Table A-2 for Total Enrollment (p. 10) and Table A-7 for Elderly and Disabled Enrollment (p. 15); Federal Medicaid Assistance Percentage: The Henry J. Kaiser Family Foundation, "State Health Facts, Federal Medicaid Assistance Percentage," <http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/> for state and year; Families receiving TANF (average monthly): DH&HS, Administration for Children & Families, "TANF Enrollment by State," for the stated years.

http://www.acf.hhs.gov/sites/default/files/ofa/2011_15months_tanssp_0.xls

http://www.acf.hhs.gov/sites/default/files/ofa/2012_15months_tanssp.xls

http://www.acf.hhs.gov/sites/default/files/main/2013_15months_tanssp.pdf

Federal TANF Funds and State TANF MOE: DH&HS, Administration for Children & Families, Office of Family Assistance, "Fiscal Year 20xx TANF Financial Data," for 2011 through 2013.

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2011>

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2012>

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2013>

Direct General Expenditures and Total Taxes: National Association of State Budget Officials, State Expenditure Report for 2012-2013 and 2013-2014, Table 1 for Direct General Expenditures, Table 28 for Medicaid, Table 18 for Public Assistance, and Table 54 for Taxes.

<https://www.nasbo.org/sites/default/files/State%20Expenditure%20Report%20%28Fiscal%202011-2013%20Data%29.pdf>

<https://www.nasbo.org/sites/default/files/State%20Expenditure%20Report%20%28Fiscal%202012-2014%29S.pdf>

³⁸ The Henry J. Kaiser Family Foundation, "Medicaid Spending per Enrollee (Full or Partial Benefit), for listed state, disabled, and FY 2011," <http://kff.org/medicaid/state-indicator/medicaid-spending-per-enrollee/>.

³⁹ Tennessee Department of Human Services, "Tennessee TANF State Plan," November 2010, http://www.tennessee.gov/humanserv/adfam/TANF_State_Plan_2010.pdf.

Tennessee Families Protected from Poverty

We calculate that approximately 4,800 families in Tennessee coping with a disability are receiving only private income protection benefit payments – they are not eligible for SSDI or other programs. Without the private insurance payments, at least 50 percent of these families (at least 2,400) would face poverty and need to rely on federal and state funded assistance programs.⁴⁰ These families likely would not be eligible for the full \$6,000 per year in state funded benefits outlined above, but state expenditures of \$3,000 per year per family is a minimum figure. Private income protection coverage, therefore, lowers public assistance expenditures for these 2,400 families by at least \$7.2 million per year.

Tennessee Employees Returning to Work

Private disability income protection coverage facilitates affected employees returning to work in two ways. First, the mere fact of substantial and coordinated financial support for the affected family provided shortly after the onset of a disability results in a higher probability that the affected individual will reenter the job market. Second, private disability insurers have implemented and systematized **comprehensive disability management** programs. These programs work with the employee, the employer and the employee's physician to align interests and expectations and thereby encourage the re-employment of an employee experiencing a disability. We calculate that at least 1,850 people in Tennessee are back on the job and earning a salary because of private disability income protection coverage.⁴¹ In Tennessee, for each family where the affected individual returns to work the state budget saves approximately \$6,000 per year – this amounts to an \$11 million per year benefit for the state budget.

Additional Tax Revenue from Employees

Another approximately 13,000 Tennessee families received private income protection benefit payments, which average 60 percent of pre-disability income, along with SSDI benefits. The private insurance benefits are substantially above the rate at which SSDI replaces pre-disability income.⁴² At Tennessee's 7 percent sales tax, this higher income leads to higher sales tax receipts. Although the exact amount cannot be determined with the available data, if each of the 13,000 affected families paid an extra \$250 per year in taxes, Tennessee tax receipt would increase by \$3.25 million per year.

Expanding Private Income Protection Coverage in Tennessee

If Tennessee employees increased their participation in private income protection coverage by ten percentage points, from approximately 30 percent to 40 percent, the Tennessee state budget would benefit by at least another \$7 million per year.

⁴⁰ David F. Babbel, Jaime Cuevas Dermody, Miguel A. Herce, Mark F. Meyer, and Navendu Vasvada, *Financial Security for Working Americans: An Economic Analysis of Insurance Products in Workplace Benefit Programs*, June 2011, especially pp. 38-40 and pp. 52-67.

⁴¹ This analysis is based on David F. Babbel and Mark F. Meyer, *Private Disability Insurance and Return-to-Work: Cost Savings to SSDI and Other Federal Programs*, September 2013.

⁴² The exact amount depends on both the age and the income history of the beneficiary. At the high end, SSDI benefits replace about 50 percent of pre-disability income – for an older, low salary person. The replacement income percentage declines rapidly as the beneficiary has a short work history and a higher salary. See, Babbel, *et al.*, 2011, pp. 18-24.

Appendix on Methodology

The analysis for each of the four states presented above depends substantially on determining the number of individuals in two categories: (1) those who would need to access public assistance in the absence of private disability income protection insurance and (2) those who returned to work, or returned to work more rapidly, because of the financial and reemployment support provided by private disability income protection coverage. The number of individuals in each of those categories for each state was determined by applying the methodologies and approaches developed by the authors in two prior studies.

In a 2011 study, Babbel *et al.* developed a stochastic micro-simulation model of the disability process.⁴³ This model found, under reasonable assumptions about disability incidence and family financial conditions, that between 70 percent and 90 percent of all workers experiencing a disability episode of at least six months would face impoverishment without the financial assistance provided by private disability income protection coverage. So the use of “at least 50 percent” in calculating the benefits to each state in the current study is conservative. The 2011 study further calculated that the number of individuals nationwide not receiving public assistance because they were receiving private disability insurance benefits was between 280,000 and 575,000 in each year. The study also calculated that each family not on public assistance because of the private disability insurance benefits saved public assistance programs an average of \$8,100 per year. Hence, annual savings for public assistance programs from this aspect of private disability income protection coverage are in the range of \$2.25 to \$4.5 billion per year.⁴⁴

In 2013 Babbel & Meyer investigated the ability of private disability income protection coverage to help get affected individuals back to work – or back to work faster.⁴⁵ The key here is determining the number of individuals *not* receiving Social Security Disability Insurance and other benefits (e.g., Medicare, Medicaid, Supplemental Nutrition Assistance Program, Temporary Assistance to Needy Families, etc.) as a consequence of being covered by private disability income insurance with its attendant economic and reemployment support. This group of workers would consist of: (1) those who *never became eligible* for SSDI benefits because private disability income protection coverage facilitated their *recovery and return to work*; (2) those who *never became eligible* for SSDI benefits because private disability income protection coverage arrested or reversed the decline in their condition even though the recovery was *not enough to result in reemployment*; (3) those who *became eligible* for SSDI benefits but who *recovered and exited SSDI eligibility* as a consequence of private disability income protection coverage (i.e., they would never exit SSDI absent private coverage), and (4) those who *became eligible* for SSDI benefits but who *recovered more quickly and exited SSDI eligibility sooner* as a consequence of private disability income protection coverage (i.e., they would eventually have exited SSDI, but private coverage accelerated their exit).

The analyses described and calculations presented in the 2013 study determined that there are at least 65,000 employees at any point in time in recent years who would have been receiving SSDI (and likely other public assistance benefits) had they not been covered by private disability income protection insurance. The analyses described and calculations presented also determined that the annual total of avoided public assistance benefits is approximately \$30,000 per year for these 65,000 affected individuals. This further implies that private disability income protection coverage is saving public assistance programs at least \$2.0 billion per year by helping people get back to work. Almost one-half of the annual reduction in assistance expenditures is due to lower SSDI benefit payments – approximately \$900 million per year. The remainder arises from lower Medicare/Medicaid and other public assistance expenditures.⁴⁶

Interested readers can examine the 2011 and 2013 studies for more detail on the assumptions and calculations used.

⁴³ David F. Babbel, Jaime Cuevas Dermody, Miguel A. Herce, Mark F. Meyer, and Navendu Vasvada, *Financial Security for Working Americans: An Economic Analysis of Insurance Products in Workplace Benefit Programs*, June 2011, http://crai.com/sites/default/files/publications/economic-analysis-of-insurance-products-in-workplace-benefits-programs_0.pdf.

⁴⁴ Babbel *et al.*, 2011, pp. 38-40.

⁴⁵ David F. Babbel and Mark F. Meyer, *Private Disability Insurance and Return-to-Work: Cost Savings to SSDI and Other Federal Programs*, September 2013, <http://www.ahip.org/PrivateDIReturntoWork92013/>.

⁴⁶ Babbel & Meyer, 2013, p. 26.