



ISSUE Brief



TWEETS

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

Expanding Income Protection Coverage for Working Americans Helps to Strengthen the SSDI Program

KEY TAKEAWAYS

80% The Social Security Trustees project that, absent congressional action, the Social Security Disability Insurance (SSDI) Trust Fund will be exhausted in late 2016 and disabled beneficiaries would then receive only about 80 percent of scheduled benefits.



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 coverage in the workplace—and know little about the benefits of private disability insurance.



Private disability income protection

coverage also significantly reduces the burden on public programs such as the SSDI program, Medicare, Medicaid, the Temporary Assistance to Needy Families (TANF) program, and the Special Nutrition Assistance Program (SNAP).



Putting in place new federal policies

to expand private disability income protection would further reduce the burden on public programs and help 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 disability coverage.¹ Additionally, more than half of American workers indicate that they know not very much or nothing at all about disability income insurance.² As a result, many Americans lack disability income protection, resulting in a significant risk of financial hardship.

Just over one in four of the nation's 20-year olds will become disabled before reaching age 67.³ For those with income protection insurance, more than 90 percent secure coverage through their employer. Income protection coverage offered as a workplace benefit is very affordable—the typical American salary can be covered for about \$25 per month.

Opt out enrollment arrangements can help bring crucial income protection to many more working Americans

Automatic enrollment, or “opt out,” arrangements can help bring the benefits of income protection coverage to many more American households. A Federal statute enacted to boost retirement savings, the Pension Protection Act of 2006, can serve as a model for legislation to expand income protection coverage.

To help ensure that employees have sufficient income protection in the event of disability, some employers are sponsoring opt out arrangements for disability income coverage. Under these arrangements—which operate very much like 401(k) plan opt out arrangements—employees are enrolled in employer-sponsored disability income coverage when hired or upon initial eligibility, subject to advance notice and broad rights to opt out of coverage.

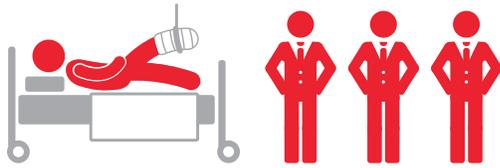
The contemplated legislation does not mandate that employers adopt opt out arrangements under income protection plans, nor does it establish

financial incentives for them to do so. Rather, the legislation simply clarifies the permissibility of such arrangements, and sends a signal of the importance of income protection coverage.

Employers may offer welfare benefit programs other than disability income protection that they feel are important enough to warrant “pre-selecting” those benefits for employees through an opt out process. The proposed legislation does not preclude employers from making such pre-selection. However, the focus of the proposed legislation is on disability income protection as the most recognized form of financial protection that every employee should consider.

While some employers now sponsor these worthwhile arrangements for their employees, many employers do not. One reason employers are hesitant to adopt opt out arrangements is the continued uncertainty about the impact of state payroll laws requiring employee consent prior to taking payroll deductions. The Department of Labor has provided guidance indicating that certain employer-sponsored benefits are not subject to state payroll law provisions that frustrate opt out arrangements, but the Department has not specifically addressed the application of these laws to disability income opt out arrangements.⁴ The courts have not yet issued confirming guidance.

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.

To eliminate any uncertainties, and to ensure the continued sponsorship of these important programs, Congress should act to confirm the permissibility of these arrangements under existing law.

Our country's recent experience with 401(k) opt out arrangements suggests that the contemplated legislation would not burden states or interfere with their interests. As part of the Pension Protection Act of 2006 (PPA), and in response to similar concerns by employers regarding employer sponsorship of 401(k) opt out arrangements, Congress clarified that such arrangements are permissible under existing laws and that state laws should not frustrate such arrangements. Employers responded to the legislation by adopting 401(k) plan opt out arrangements for their employees. The positive public policy effects of the PPA provision proved significant. For instance, a 2013 study found that 73 percent of 401(k) plans with opt out arrangements reported very robust employee participation (80 percent of employees or higher) versus 40 percent of plans without opt out arrangements reporting employee participation as

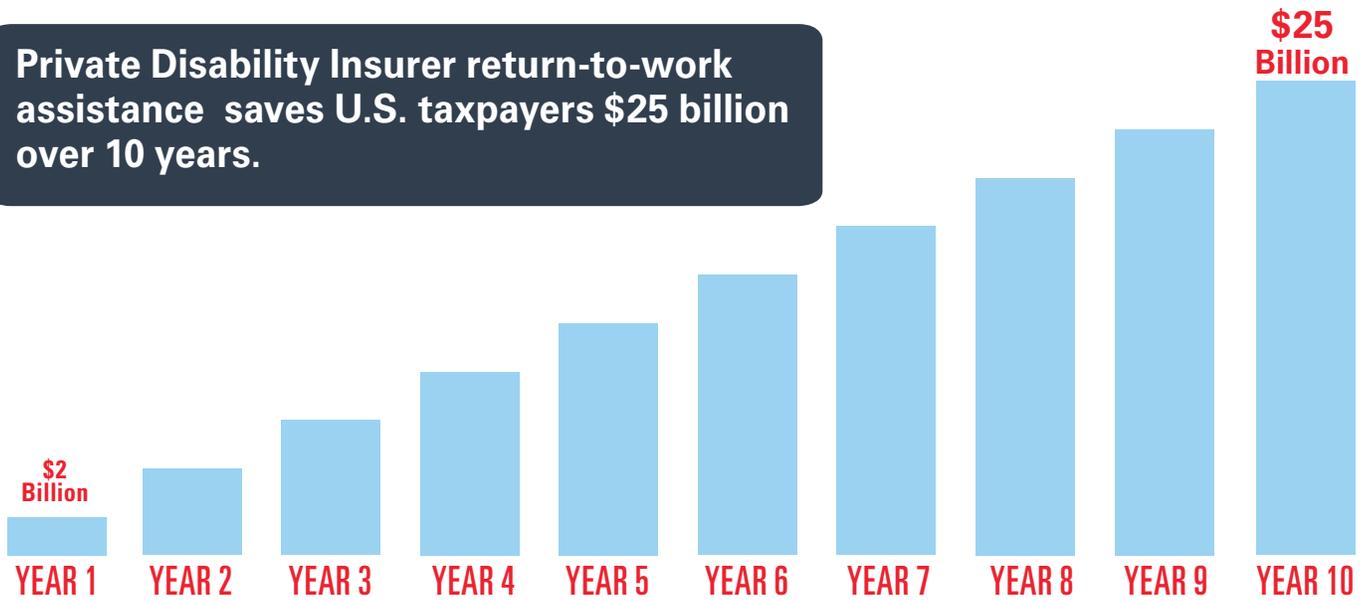
robust.⁵

Like the PPA provision, the contemplated legislation is important because it would help confirm the permissibility of these opt out arrangements with respect to disability income coverage. Moreover, the legislation would also require employer sponsors to include certain important protections for employees—including advance notice requirements and the ability of the employee to opt out of coverage in advance of enrollment or dis-enroll from coverage later on.

Expanding private income protection coverage will reduce the burden on federal and state assistance programs

Two studies by Charles River Associates suggest that both state and federal governments would be well served by expanded employer adoption of opt out arrangements under disability income plans. The more recent Charles River analysis estimates that private insurer disability management and return-to-work assistance will save the federal government \$25 billion over 10 years. Almost half of these savings accrue to the Social Security Disability Insurance (SSDI) program. The remaining savings arise when ill or injured workers are able to return to work and leave the rolls of public programs, such as Medicare, Medicaid, and the Special Nutrition Assistance Program (SNAP).⁶ An earlier study 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.⁷ 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.

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



Federal legislation is consistent with state laws regarding payroll deductions

Federal legislation to boost income protection coverage through opt out arrangements is not inconsistent with the intent and operation of state laws regarding payroll deductions.

It is important to note that the state payroll deduction laws most likely to be implicated by opt out arrangements were enacted by states to protect individuals from having their wages reduced without their consent. The proposed legislation strikes the right balance. It provides protection against the loss of income due to illness or injury, while providing employees with ample opportunity to make their own choices to retain coverage or to opt out of coverage. By pre-selecting coverage for employees, an employer demonstrates its commitment to income protection as a crucial component of financial protection for all employees, while making sure that employee wages are not reduced without employees' knowledge and opportunity to opt out.

Conclusion

Federal legislation to make clear to employers and other stakeholders that opt out arrangements are permitted under employer-sponsored disability income plans would result in significantly more employees enjoying disability income protections. Employers see great variability in plan enrollment by such factors as income, race, sex, and job location. Thus opt out arrangements can be particularly beneficial to underserved segments of the workforce. This would bring greater financial security to more American households, improve productivity and lower costs for employers, and reduce the burden on public programs and the American taxpayer. Importantly, this goal would be accomplished without infringing on state laws intended to protect workers' paychecks.

End Notes

- 1 U.S. Bureau of Labor Statistics, *Insurance Benefits, Access, Participation and Take-Up Rates*, National Compensation Survey, March 2013.
- 2 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.
- 3 Social Security Administration, *Basic Facts*, April 4, 2012.
- 4 U.S. Department of Labor, *Advisory Opinion 2008-02A*, February 8, 2008.
- 5 World at Work and the American Benefits Institute, *Trends in 401(k) Plans and Retirement Rewards*, March 2013.
- 6 Charles River Associates, *Private Disability Insurance and Return-to-Work: Cost Savings to SSDI and Other Federal Programs*, September 2013.
- 7 Charles River Associates, *Financial Security for Working Americans: An Economic Analysis of Insurance Products in Workplace Benefits Programs*, July 2011.

Related Topic

Maintaining the Disability Insurance Trust Fund's Solvency

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