

Statement

Insurance Association of Connecticut

Labor and Public Employees Committee

February 10, 2009

SB 716, An Act Eliminating The Reduction Of Benefits Payable Under A Long-Term Disability Policy By Amounts Received By The Insured In Social Security Payments

The Insurance Association of Connecticut (IAC) opposes SB 716, which would prohibit group and individual long-term disability (LTD) insurance policies from having Social Security offset provisions. SB 716 would severely increase the cost of LTD policies and do real harm to the market for those policies, to the detriment of consumers.

The purpose of LTD insurance is to provide replacement income to eligible individuals who become disabled, equal to some pre-designated percentage of their pre-disability income. In addition, standard provisions establish an offset, to be subtracted from the policy benefit, for certain defined sources of additional income, such as Social Security benefits.

Offset provisions are approved across the nation by state regulators. LTD policies are priced with the actuarial assumption that a portion of eligible claimants will have benefits offset by other income.

For individual LTD insurance, the applicant usually has the option to choose whether the policy contains an offset or not. By choosing an offset, the applicant can save appreciable dollars on premium requirements. SB 716 would take away that flexibility for consumers, to their detriment, by removing their choice and increasing their premiums.

Group LTD insurance is usually provided through employers, who may pay up to 100% of the premium. Years of selling LTD policies has shown insurers that it is an extremely price-sensitive market, since LTD insurance is a voluntary coverage. Group insurance plans lower administrative costs, helping to make coverage more affordable. The typical plan design for an LTD policy provides for a benefit of 60% of the insured's pre-disability income. Part of the reason for designing LTD plans with a maximum benefit amount is to encourage a return to work when the claimant's health condition permits.

By prohibiting Social Security offsets in group LTD policies, it is estimated that SB 716 would increase the premiums for such coverage by 40-60% or more, varying with the average salary of the group.

In addition, without an offset, it is possible that the person's aggregate income could approach or even exceed his or her pre-disability earnings. With no financial incentive to return to work, the cost of LTD claims will rise, which will cause further increases in LTD premiums.

IAC knows of no other state that prohibits Social Security offset provisions in LTD policies. IAC believes the reasons for that fact are clear.

SB 716 would have a direct and detrimental impact on consumers. The price of the coverage will be markedly increased. That will inevitably lead to fewer employers offering such coverage to their employees.

In the alternative, employers may offer amended plans in an attempt to control SB 716's cost impact. The percentage of pre-disability income may be reduced, to as low as 25%. Such a change would not be beneficial to consumers, particularly those who do not qualify for Social Security benefits. Plans may be restructured to pay a flat amount

of dollars, regardless of the individual's own income. Again, the potential for unfair results for claimants is clear.

Today, LTD insurers typically assist claimants in qualifying for SSDI benefits, even providing legal help. Though SSDI benefits currently result in an offset under the policy, claimants benefit because: qualification for SSDI benefits assures Medicare eligibility for disabled claimants; qualification for SSDI benefits protects eligibility for and the amount of Social Security retirement benefits; other family members, such as children, may qualify for benefits as a result of the award; SSDI benefits are inflation adjusted, and the inflation adjustments are not offset from LTD benefits; SSDI benefits are income-tax free for many claimants, whereas LTD benefits are more likely to be taxable.

If SB 716 is adopted, and offsets are prohibited, insurers will not have an incentive to assist claimants in applying for SSDI benefits, so they will likely cease to offer such a valuable service. Once again, if SB 716 passes, the consumer loses.

LTD insurance is not a mandatory coverage. Employers decide to include it or not as part of their employee benefits package. Clearly, the cost of LTD insurance is a major factor in that decision. SB 716 would markedly increase the cost of that coverage, leading to numerous negative consequences for consumers. IAC urges rejection of SB 716.