

- The fundamental purpose of private group long-term disability (LTD) and individual disability income (IDI) coverage is to supplement other sources of disability income, so that workers – taking into account all sources of disability income - will receive reasonable and appropriate income replacement at the most affordable level of cost.

- 1) Will double or triple the premium for Blue and Grey collar workers for Disability Insurance.
- 2) Limits products for client to choose from including shortening length of Benefits to 2 years in some cases.
- 3) This bill will cause policy to be written in surrounding states when legal and the state will lose the premium taxes.
- 4) Individuals that decide not to purchase coverage because of the increased cost will then depend on state and federal aid.
- 5) Connecticut would be the only state in the country with this type of law.

- Because the Social Security Disability Insurance (SSDI) program is an important source of disability income protection, both LTD and IDI insurance policies are designed and priced with the acknowledgement and understanding that the vast majority of working Americans are covered under this program. Therefore, it is standard practice under employer-sponsored group LTD policies to include a provision that reduces the amount of private disability income benefits by the amount of Social Security Disability Insurance (SSDI) benefits. Group LTD policies also include offset provisions for disability income benefits from other programs.

- Under IDI coverage, reduction for the receipt of SSDI benefits and disability income from other programs is also common. The specific provisions for coordination of private disability income benefits and benefits from SSDI and other programs are typically addressed by a rider to a policy.

- But, it is also important to note that private disability insurance provides often crucial income protection for workers: 1) whose work histories do not yet entitle them to SSDI or other public program coverage, 2) who are disabled under a private disability income policy, but not determined eligible for SSDI or other public program benefits, and 3) who may ultimately prove eligible for SSDI benefits, but must wait a very long time – perhaps years – for an SSDI benefit determination.

- It should also be noted that public program benefit offsets are also included in standard provisions in state and federal employee provided disability plans. In fact, Connecticut's own state retirement plan has a disability program that offsets any receipt of SSDI benefits by a participant in the plan. This demonstrates that SSDI benefit offsets are a product of sound plan design and cost considerations - and not a practice unique to private disability insurance.

- Coordination of private and public disability income benefits is appropriate and generally necessary to ensure that an individual who is receiving disability income benefits from more than a single source does not have disability income that approaches or exceeds pre-disability income. The overpayment of disability income that approaches or exceeds pre-disability income can create situations

under which an individual is better off financially during a work disability than while working. That is, overpayment of disability income benefits creates distorted financial incentives inconsistent with affordable coverage, fairness, and appropriate disability claim management. For example, overpayment of disability income benefits can become an obstacle to the re-employment of an individual otherwise able to return to the workforce.

- Private disability insurers typically set long-term disability income benefits at 60% or 66% of pre-disability income. Long industry experience shows that this income replacement range balances the need for sufficient disability income with avoidance of moral hazard. (This replacement income range also factors in the reduction in household expense from foregoing many expenses required for work and income generation.)

Allowing individuals to collect both full private disability income benefits and public program disability benefits would very frequently result in disability income levels too high in relation to pre-disability income.

- Prohibiting benefit offsets would raise the cost of private disability income insurance significantly. A report published by the highly regarded actuarial firm, Milliman, Inc., in 2005 estimated that SSDI benefit offset provisions reduce the cost of private disability income insurance by 40% to 45%. Put otherwise, the impact on price of removing a Social Security offset could range from 67-82%, all else being equal. If insurers refuse to provide this disability coverage because of the elimination of public program benefit offsets - or the price of available coverage is so prohibitive that employers and employees refuse to purchase it - this very important disability income protection would be lost to many thousands of Connecticut citizens.

- The alternatives to large premium increases – reducing benefits and/or the benefit period while holding premium constant - could reduce the typical long term disability benefit to perhaps 25% -30% of pre-disability income. For lower and middle income workers who are fortunate enough to qualify for Social Security disability benefits, such an impact might only be dramatic during the approximately six months at the beginning of a disability for which Social Security or other public program disability benefits are not paid, and for the average of 9-11 months thereafter that it takes Social Security to make a favorable benefit decision. But for any Connecticut citizen not covered by public programs such as the Social Security, and for ill or injured workers who do not qualify for public program disability benefits, the impact could be financially devastating.

- Whether the result is much higher disability insurance premiums or significantly reduced disability income benefits, enactment of legislation to prohibit disability benefit offsets under private disability income insurance policies would destroy a significant portion of the disability income safety net currently available to Connecticut citizens.

Gerald Flowers
NAIFA Connecticut
State Board Member