141

Connecticut Senate Bill 141 - An Act Concerning Disability Policy Offsets and Dependent Children

Statement of

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I. Introduction

Chairmen Crisco and Fontana and members of the Insurance and Real Estate Committee, America's Health Insurance Plans (AHIP) appreciates this opportunity to present testimony on Senate Bill 141, "An Act Concerning Disability Policy Offsets and Dependent Children." AHIP is the national association representing approximately 1,300 health insurance plans that provide coverage to more than 200 million Americans. Our members offer a broad range of insurance products, including private disability income insurance to help consumers replace lost income in the event that a disabling condition forces them to leave the workforce for an extended period of time.

AHIP and our member insurers writing disability income insurance appreciate – and share – the Committee's interest in promoting the financial security of Connecticut workers and families through the availability of quality disability income insurance coverage. On behalf of our members, we strongly urge you to reject Senate Bill 141 because of the unintended adverse consequences the bill would have on Connecticut workers and families, employers, and taxpayers.

II. Disability Income Benefit Offsets

Disability income insurance is a promise to pay benefits to keep a claimant's income at a certain level during disability. A common example is employer-sponsored disability insurance, which typically provides for a disability income benefit of 60 percent of pre-disability pay. Typically, these group disability policies coordinate with disability income from all relevant sources. Private disability benefits are adjusted to account for income benefits from other plans or government programs – so that the same lost income is not replaced twice. This helps keep total disability income benefits from all sources from being too high relative to pre-disability income – and disability insurance premiums affordable.

Industry experience and studies show that the higher the percentage of pre-disability income replaced, the less the incentive for claimants to strive to become medically and physically ready to resume working. When income replacement percentages are too high, it results in a situation known as "over-insurance." Over-insurance leads to more and longer disabilities, fewer employee recoveries, and diminished productivity.

III. Unintended Adverse Consequences that Would Result from the Enactment of Senate Bill 141

The proposed restrictions on benefit offsets under disability income insurance policies will increase the cost of coverage for Connecticut employers, families, and taxpayers.

Restricting offsets allowable under disability income insurance plans to only those "benefits payable as a result of the person's disability," and disallowing any offset for dependent SSDI benefits will raise the costs of disability income coverage for Connecticut employers and the families of Connecticut workers.

Ensuring the availability of affordable coverage options is an important policy issue that is made even more critical during Connecticut's – and the nation's – current economic challenges. Our conservative estimates indicate that the proposed prohibitions on benefit offsets would increase the cost of existing disability coverage by 12 to 15 percent. All purchasers of disability income coverage – not just workers with dependent children – would face this immediate increase. This would also be true for taxpayer-supported state and local government disability plans.

Coverage for workers and their families would be dropped or reduced. The lack of adequate disability income protection would subject disabled Connecticut workers and their families to severe financial hardship – especially those waiting for or denied SSDI benefits.

Purchasers of disability income coverage are very price sensitive. Even modest increases in the cost of coverage can cause employers to drop the coverage provided to their employees – or to forgo the establishment of a disability income plan for employees.

Similarly, for individual disability income policies or group plans that require the employees to pay the premiums, increases in the cost of coverage lead to a reduction in the purchase of coverage or the amount of coverage purchased. At the margin, workers who might have purchased adequate private disability coverage at more affordable rates can be left without the coverage they – and their families – will need if illness or injury strikes.

Because of this price sensitivity of demand, increases in the cost of disability income coverage would have a significant impact on access to disability income coverage, depriving many Connecticut households of disability income benefits that could prove crucial. This proposal would be especially devastating to disabled workers who do not qualify for SSDI – or who face an extended waiting period for a decision on an SSDI benefit application. Their ability to support themselves and their families would be severely compromised.

No other state restricts disability income insurance offsets as now proposed in Connecticut. Disrupting the private disability income insurance market in Connecticut will add to the economic strains on businesses, families, and the state's economy.

No other state is currently even pursuing the restrictions on offsets as proposed under Senate Bill 141. These restrictions would limit employer and consumer choice in the selection of disability income coverage, forcing them into the choice between paying higher premiums, reducing coverage, or dropping coverage altogether. Connecticut businesses would be put at competitive disadvantage

At a time when businesses and families are struggling in Connecticut, raising the cost of disability income coverage would inevitably result in fewer Connecticut workers and families enjoying the benefit of private disability income coverage. And, as more workers forego coverage due to increased costs, higher default rates on mortgages and other key consumer financial obligations are likely to increase, creating additional financial strain on Connecticut's economy.

The proposed prohibitions on disability income benefit offsets will result in fewer employee recoveries, longer periods of worker disability, and diminished productivity for Connecticut businesses.

For the reasons discussed above, nearly all group disability income policies – and many individual disability income policies – include provisions for the offset of SSDI benefits. The rationales for the offset of SSDI benefits – avoiding over-insurance and keeping premiums affordable – apply equally to the appropriateness of offsetting SSDI dependent benefits.

The proposed prohibition of offsets "other than for benefits payable from other sources as a result of the disability" would significantly curtail other common and appropriate offsets under disability income insurance policies – with commensurate impact on cost of coverage and affordability. This would allow disabled claimants to collect, in addition to full private disability income benefits, retirement benefits from Social Security and other sources. It would also allow disabled claimants to collect full disability income benefits in addition to any earnings while partially disabled.

In both of these examples, the proposed legislation runs counter to decades of innovation and benefit liberalization in the private disability income insurance marketplace. Early in the history of the industry, benefits were not paid once a person retired, or reached normal retirement age, and benefits were only payable for so-called "total" disability, a condition which made a person completely incapable of working in any capacity. Over the last sixty-plus years, disability income insurers have broadened the range of people eligible for a benefit under their policies, to include people who have retired or reached normal retirement age, and people who are still capable of working on a limited basis.

As insurers have expanded the circumstances under which they provide a benefit, it has been necessary also to expand the list of other benefits or income that are offset against their scheduled disability income benefits, in order to avoid the over-insurance that would otherwise arise. As a result, today nearly all group disability insurance policies offset for certain types of retirement benefits, as well as for wages earned while partially disabled. This is intended to balance the need to avoid over-insurance against the desirability of encouraging the claimant to try to work if it is possible to do so.

Group disability policies are not intended to insure a person's retirement. Therefore, when a private disability claimant receives retirement benefits, an offset is crucial to avoid over-insurance. While the claims of retirement-age, or near-retirement-age, insureds are usually limited in duration, the frequency with which these older workers become disabled is much higher than that of younger workers. The result is that elderly claimants make up a substantial portion of claims costs. An inability to offset Social Security and other retirement benefits would therefore have a significant impact on the costs of coverage.

IV. Conclusion

The proposed legislation would have serious unintended adverse consequences that would undermine – rather than bolster – the financial security of Connecticut workers and families. The proposed measure would impose additional costs on employers, employees, and taxpayers – without commensurate benefit – and add to economic strains facing the citizens of Connecticut.

- The cost of disability income coverage would rise, conservatively, by 12 to 15 percent. Cost increases would be borne by workers, employers, and Connecticut taxpayers.

- Coverage for workers and their families would be dropped or reduced. The lack of adequate disability income protection would subject disabled Connecticut workers and their families to severe financial hardship – especially those waiting for or denied SSDI benefits.

- No other state has adopted this model.

- For some disabled workers who could recover and return to work, the proposed legislation creates a disincentive to do so. This leaves workers worse off and diminishes business productivity.

For these reasons, AHIP strongly urges the Committee to oppose passage of Senate Bill 141.