Connecticut Senate Bill 32 – An Act Prohibiting Offsets for Retirement Benefits in Disability Income Protection Policies

and

Connecticut Senate Bill 34 – An Act Prohibiting Offsets for Dependent Children in Disability Income Protection Policies

Statement of

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Chairmen Crisco and Megna, and members of the Insurance and Real Estate Committee, America's Health Insurance Plans (AHIP) appreciates this opportunity to present testimony on Senate Bill 32, "An Act Prohibiting Offsets for Retirement Benefits in Disability Income Protection Policies," and Senate Bill 34, "An Act Prohibiting Offsets for Dependent Children in Disability Income Protection Policies." 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 disability income coverage to help workers and their families in the event that an illness or injury prevents a family breadwinner from continuing to work and earn an income. Disability income coverage provides income replacement to ill or injured workers and can assist in rehabilitating and getting a disabled worker back on the job.

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 32 and Senate Bill 34 because of the unintended adverse consequences these bills would have on Connecticut workers and families, employers, and taxpayers.

I. Introduction

Senate Bill 32 would prohibit the reduction (offset) of disability income benefits paid under a group or individual disability income policy by the amount of retirement benefits received by the insured. Senate Bill 34 would prohibit the reduction (offset) of disability income benefits paid under a group of individual disability income policy by the amount of Social Security Disability

Insurance (SSDI) benefits paid to, or on behalf of, a child who is a dependent of the insured. Though addressing different sources of disability income, both bills would impose prohibitions that would raise the cost of disability income coverage in Connecticut, and therefore, reduce the access of workers and their families to disability income coverage that would be crucial should illness or injury prevent a worker from carrying out his or her job for an extended period of time.

The proposed bills also risk creating circumstances under which a worker's total disability income is too high relative to pre-disability income, creating disincentives for workers – who may otherwise be able to do so - to strive to become medically and physically ready to resume working. Therefore, the proposed prohibitions on disability income benefit offsets would result in fewer employee recoveries, longer periods of worker disability, and diminished productivity for Connecticut businesses.

Last year, this Committee considered a bill that would have imposed the offset prohibitions proposed in Senate Bills 32 and 34. AHIP is grateful that the Committee and the Legislature opted instead to enact requirements for enhanced, conspicuous, and detailed disclosure by insurers to consumers of offset provisions in disability income policies. The new disclosure requirements also require insurers to include in their disclosure a statement that, if an individual wants a policy that does not contain an offset, the individual may contact an insurance agent or company to seek such coverage. AHIP supported this enhanced disclosure. We urge the Committee to stand by its decision of last year instead of imposing new requirements that would diminish – not strengthen - the disability income security of Connecticut workers and families.

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 32 and Senate Bill 34

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

Ensuring the availability of affordable disability income coverage options is an important policy issue that is made even more crucial during Connecticut's – and the nation's – current economic challenges. Actuarial experts at our member companies have provided estimates of the combined impact that the enactment of both Senate Bill 32 and 34 on disability policy premiums. These estimates range from premium increases of 9% to 25%. (Enactment of the proposed bills would affect premiums of various companies differently depending on differing details of product design.) Premiums for taxpayer-supported state and local government disability plans would also rise.

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 families of disabled workers – including families with dependent children - 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 in a manner similar to what is proposed under Senate Bills 32 and 34. Disrupting the private disability income insurance market in Connecticut would add to the economic strains on businesses, families, and the state's economy.

No other state has enacted legislation to impose the restrictions on benefit offsets under disability income policies as proposed by Senate Bill 32 and Senate Bill 34. 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 would 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 retirement benefits and SSDI dependent benefits.

The proposed prohibition of offsets for retirement benefits would significantly curtail common and appropriate offsets under disability income insurance policies – with commensurate impact on cost of coverage and affordability. The prohibition would, for instance, allow disabled claimants to collect, in addition to full private disability income benefits, retirement benefits from Social Security among other sources. (Social Security permits beneficiaries to collect retirement benefits as early as the first full month a worker reached the age of 62.) Disability income 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 older 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.

The proposed bills run 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.

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 measures 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. Our estimates of the combined impact of the enactment of both Senate Bill 32 and 34 range from premium increases of 9% to 25%. These 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 enacted similar legislation.

- 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 32 and Senate Bill 34.