Office of Legislative Research
Research Report
August 11, 2016
2016-R-0144

PRIVATE DISABILITY INSURANCE IN CONNECTICUT

By: Alex Reger, Legislative Analyst II

ISSUE

Explain disability insurance, including benefit and elimination periods. Describe the major laws and regulations governing disability insurance in Connecticut. Explain how disability insurance in Connecticut differs from workers' compensation insurance.

SUMMARY

Disability insurance, also known as income protection coverage, pays part of an insured's income when he or she is disabled and unable to work as a result of a non work-related sickness, injury, or pregnancy. These policies generally pay an insured for the duration of a benefit period that begins after an elimination period (i.e., the time the insured must wait before collecting benefits).

There are two types of disability insurance policies: short-term and long-term. Short-term policies have shorter benefit periods, typically between six months and a year, and shorter elimination periods. Long-term have longer benefit periods, generally over a year, and longer elimination periods.

In general, private disability insurance is purchased through an employer (i.e., group coverage) or by an individual (i.e., individual coverage). This type of insurance is different from Social Security Disability Insurance, which provides disability benefits as part of the federal Social Security program.

Like disability insurance, workers' compensation insurance also provides income replacement but is generally limited to insureds who are unable to work as a result of sickness or injury sustained during or resulting from employment.

DISABILITY INSURANCE

Group vs. Individual Coverage

Group coverage refers to a disability policy offered through an employer as a benefit to an employee. In general, group coverage allows an individual to purchase private disability insurance without going through the underwriting process. (Underwriting is an insurance company's assessment of a person's medical profile and other risk factors to determine the person's eligibility for coverage and price of such coverage.)

Individual coverage refers to a disability policy purchased by an individual from an insurance company or through an agent. In general, individual coverage requires an insured to complete the underwriting process.

As with any type of insurance policy, insurers require an insured to meet the policy's conditions before receiving benefits. For disability insurance, this often means meeting any applicable elimination period and the standards for total, partial, or residual disability.

DISABILITY INSURANCE IN CONNECTICUT

Regulations and Minimum Coverage

In Connecticut, disability insurance is regulated as a subcategory of accident and health insurance.

Under state regulation, disability insurance must provide at least six months of coverage, except in cases of pregnancy, childbirth, or miscarriage, when a policy must provide at least one month of coverage. Insurers are prohibited from reducing benefits because the insured receives an increase in Social Security or similar benefits during the disability period. Policies offering payments to insureds age 62 and older must meet additional requirements (Conn. Agencies Regs. § 38a-505-9).

Income Replacement

The amount of income replaced under a disability insurance policy varies. While the Connecticut Insurance Department does not separately track disability insurance, a nationwide survey of employer-sponsored (i.e., group coverage) plans by the federal Department of Labor (DOL) shows that 78% of short-term policies and 75% of long-term policies replace at least 60% of an insured's income. Tables 1 and 2 show the percent of short- and long-term disability policies, respectively, by percent of income replaced.

Table 1: Short-Term Disability Insurance Policies for Private Industry Workers by Percent of Annual Income Replaced

14% of short-term disability insurance policies replace	More than 69% of annual income
24% of policies replace	Between 61% and 69% of annual income
40% of policies replace	60% of income
20% of policies replace	50% of income

Source: http://www.bls.gov/ncs/ebs/benefits/2015/ownership/private/table26a.htm. Two percent of policies have different annual income replacement levels.

Table 2: Long-Term Disability Insurance Policies for Private Industry Workers by Percent of Annual Income Replaced

11% of long-term disability insurance policies replace	61% or more of annual income
64% of policies replace	60% of annual income
25% of policies replace	59% or less of annual income

Source: http://www.bls.gov/ncs/ebs/benefits/2015/ownership/private/table30a.htm.

Both short- and long-term policies generally limit weekly benefits to a fixed maximum listed in the policy, regardless of an insured's annual income. For example, according to DOL, 75% of short-term plans have a maximum weekly benefit amount of $1,300 or less.

Benefit Periods

The benefit period is the length of time a policy will pay an insured for his or her disability. For example, a policy with a one year benefit period pays an insured a portion of his or her salary for up to one year of disability, after an elimination period.

The Connecticut Insurance Department does not separately track disability insurance benefit periods. However, according to the DOL survey, 50% of employer-sponsored short-term disability plans for private industry workers offer a benefit period of at least 26 weeks.

According to the DOL, long-term policies generally pay benefits until retirement or another time specified in the policy. The benefit period in long-term policies may also depend on the age at which the employee claims benefits.

Elimination Periods

An elimination period, sometimes called a waiting or qualifying period, is the period of time between the onset of the injury, illness, or functional loss and the time the insured is eligible for benefits. For example, a policy with a 100-day elimination period begins paying benefits on the 101st day of the injury, illness, disability, confinement in a nursing home, or other benefit trigger.

Connecticut regulations set maximum elimination periods based on a policy's benefit period. Table 1 shows the maximum elimination period per benefit period.

Table 1: Maximum Elimination Period by Benefit Period

Benefit Period (Years)	*Maximum Elimination Period (Days)*
Less than 1	90
1-2	180
More than 2	365

Source: Conn. Agencies Regs. § 38a-505-9(F)

According to the Connecticut Insurance Department, most short-term disability policies filed in the state have a one-year benefit period.

Total, Partial, or Residual Disability

Connecticut regulations define three types of disability: "total," "partial," and "residual" (Conn. Agencies Regs. § 38a-505-5). Generally, policies offer different benefits based on the extent of an individual's disability.

Total Disability. In general, an individual is totally disabled if he or she is completely unable to work in a field for which he or she is qualified. Policies are allowed to define total disability in relation to specific duties but are prohibited from generalizing based solely on an individual's inability to perform (1) other occupations for which he or she is not qualified, (2) every aspect of his or her job (Conn. Agencies Regs. § 38a-505-5). Total disability cannot be based solely on an individual's inability to engage in a training or rehabilitation program.

Within these regulations, insurers are allowed to (1) specify the requirements of the complete inability of the person to perform all of the substantial and material duties of his or her regular occupation and (2) require the person receive care from a physician.

Insurers may also define "totally disabled" in any less restrictive manner.

Partial Disability. Partial disability is an individual's inability to perform one or more, but not all, of the major, important, or essential duties of his or her employment. It may also be related to compensation, time worked, or other experience factors. Policies providing total or partial disability benefits may not include more than one elimination period.

Residual Disability. Residual disability, also called proportionate disability, is an inability to perform (1) some part of the major, important, or essential duties or (2) all usual business duties for as long as is usually required.

Policies providing residual disability benefits may require a qualification period, during which an insured must be continuously totally disabled before residual disability benefits are payable. This qualification period cannot be longer than the elimination period for total disability.

COMPARISON TO WORKERS' COMPENSATION INSURANCE

By law and with few exceptions, employers must provide workers' compensation insurance for their employees (CGS Chapter 568).

Workers' compensation benefits fall into two categories: (1) payments for medical expenses and treatment of a work-related injury or disease and (2) benefits that compensate an injured employee for lost earnings and for any benefit disability. The latter benefits are called wage-loss and indemnity benefits.

Workers' compensation insurance, like disability insurance, also provides income replacement. However, workers' compensation is generally limited to insureds who are unable to work as a result of sickness or injury sustained during or resulting from employment.

Under state workers' compensation law, an employee who is injured on the job while performing a job-related activity or becomes ill due to work-related reasons is covered by workers' compensation insurance. This means (1) the employee's medical treatment for that injury or illness will be covered by the employer's workers' compensation insurance at no cost to the employee and (2) the employee will receive certain wage replacement during the time he or she is out of work recovering.

The law also bars the employee from bringing a civil lawsuit against the employer over the same injury or illness.

AR:cmg