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## The Value of Disability Income Insurance

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**A front-page article in the New York Times on April 1, 2008 included a number of factual errors and unwarranted allegations regarding private disability insurers' claim management practices and their coordination with Social Security Disability Insurance benefits. This issue has also received attention on Capitol Hill and Senator Grassley has since requested related information from several disability insurers. This paper provides important information to set the record straight about our industry's practices and the value we provide to consumers.**

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- **Disability insurance is an important benefit for millions of Americans.**
  - Employer-sponsored LTD insurance provides critical protection to approximately 40 million Americans, constituting about 30 percent of workers in private industry.<sup>1</sup>
  - In 2006 more than 500,000 individuals received LTD payments from private insurers totaling more than \$7.2 billion.<sup>2</sup>
  
- **A recent Harris Interactive survey found that disability insurance claimants are satisfied with their policy and had a positive experience applying for SSDI benefits.**
  - The survey found that four out of five private disability insurance claimants are satisfied with their overall policy and most expressed high satisfaction with the process for filing and receiving benefits.
  - For private disability insurance claimants who also applied for and received SSDI benefits, nearly eight out of ten (79 percent) were satisfied with their overall experience getting SSDI benefits. More than two-thirds (69 percent) said they were satisfied with the process for filing a SSDI claim.
  - Four out of five claimants (80 percent) who received both private disability insurance and SSDI benefits said they would have suffered financial hardship if they had not received their SSDI benefits. Ninety-seven (97) percent said it was at least somewhat likely they would have suffered financial hardship if they had received only their SSDI benefits and not private disability insurance benefits.
  
- **Only claimants with long-term disabilities are encouraged to apply for SSDI benefits.**
  - Disability insurers provide assistance in the application process to beneficiaries who may be eligible to apply for SSDI benefits, but they do not require everyone to apply.
  - Only claimants with expected long-term disabilities are encouraged to apply for SSDI benefits, and some claimants may need to apply for SSDI benefits to get full coverage under their private LTD policies.

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<sup>1</sup> NU Online News Source, JHA: Group LTD Enrollment Rises 5%, April 2008; National Compensation Survey: Employee Benefits in Private Industry in the United States, 2007, U.S. Department of Labor, Bureau of Labor Statistics.

<sup>2</sup> Council for Disability Awareness 2006 Long-Term Disability Insurance Claims Survey (CDA 2006 Survey). This Survey did not include the entire private disability insurance marketplace, so the actual numbers are higher.

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- **Disability insurers should continue to assist beneficiaries in taking advantage of their rights under the Social Security program.**
    - Insurers are helping claimants apply for SSDI benefits for which they may be eligible. Two-thirds of individuals receiving private LTD income benefits also qualified for SSDI benefits.<sup>3</sup>
    - SSDI provides an important source of income for workers and can confer benefits beyond private disability income payments. This includes additional benefits for a spouse and/or dependents; access to vocational assistance and other support from the SSA; and eligibility for Medicare benefits after a period of 24 months.
    - Coordinating benefits with SSDI keeps disability income protection more affordable for consumers and employers. One study shows that such coordination lowers the cost of private LTD insurance by about 40 percent.<sup>4</sup>
    - Public entities, such as the Federal Employee Retirement System, require disabled beneficiaries to file for SSDI benefits. A requirement to apply for SSDI benefits is also part of many states' workers' compensation systems, as well as public employee retirement systems.
  
  - **Only the Social Security Administration can make a determination about SSDI eligibility.**
    - The SSA and private LTD insurers use different definitions and criteria for awarding disability benefits. A decision by a private disability insurer to award benefits does not mean that the SSA will award benefits and vice versa.
    - The SSDI definition of disability is broad, encompassing those who have a "severe impairment" that is expected to result in death, or can be expected to last 12 months or more. It is not always clear either to the applicant or the disability insurer at the time of application whether that individual will satisfy the "death or 12-month standard" contained in the SSDI definition of disability.
  
  - **Most consumers want to exhaust their appeals rights for SSDI benefits.**
    - SSDI benefit determinations are made by various state Disability Determination Service offices, and there is significant variation in the percentage of benefits awarded among these offices.
    - More than 60 percent of individuals who apply for SSDI benefits are initially denied. However, according to the SSA, two-thirds of applicants that reach the federal hearing level are approved.

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<sup>3</sup> Council for Disability Awareness, 2006 Long-Term Disability Claims Review

<sup>4</sup> Milliman, Inc., November 2005

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- **Private disability insurers' practices are not contributing to the SSDI backlog or adding unnecessary administrative costs to the SSA.**
    - The SSA is working hard to reduce its backlog, which it has told Congress is caused by underfunding, a shrinking agency workforce, an insufficient pool of administrative law judges, and a rapid escalation of claims from baby boomers entering the more disability prone period of their working careers.<sup>5 6</sup>
    - SSDI is now receiving about 2.5 million applications for benefits each year. Private disability insurers receive fewer than 200,000 long-term disability claims each year – or less than 8 percent of the total number of SSDI claims.
    - The small number of disability claimants who also apply for SSDI benefits combined with SSA's longstanding "open door" policy for applications shows clearly that private disability insurers are not imposing undue administrative costs upon the SSA in assisting consumers to apply for SSDI benefits
  
  - **While the SSA is taking important steps to reduce the SSDI backlog, private disability insurers can help to further speed and improve the SSDI claim adjudication process.**
    - Private disability insurers compile extensive disability claim information that could help speed up the SSDI claim adjudication process.
    - In fact, private disability insurers are currently working with the SSA to test new procedures to provide SSA with this information. The test is initially focused on providing objective medical evidence, such as attending physician statements and lab and test results, for claims expedited based on presumptive diagnoses and/or terminal prognosis.
  
  - **Insurers do not base reserve calculations on claimants' applications for SSDI.**
    - Insurers do not adjust claim reserves based merely on whether a claimant applies for SSDI benefits, but rather on actuarially-sound principles and experience relating to the award of SSDI benefits.
    - Insurers' claim reserves are legally required to have sound actuarial justification and are subject to periodic examination by state regulators.

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<sup>5</sup> SSA letter to Senator Tom Harkin, September 13, 2007

<sup>6</sup> SSA testimony before House Ways and Means Subcommittee on Social Security, May 1, 2007



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