9. Expanding Private Disability Insurance Coverage to Help the SSDI Program

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INTRODUCTION

For working Americans facing a disabling illness or injury, private group long-term disability insurance (hereafter "group disability") provides a crucial supplement to Social Security Disability Insurance (SSDI) benefits. Approximately one-third of Americans working in the private sector have disability income-protection coverage, most often through group policies sponsored by their employers (BLS 2014, under "Private Industry Workers" Table 16). Three primary benefits characterize group disability insurance for employees: it replaces a significant proportion of pre-disability income; it typically starts paying income protection benefits three or six months after disability onset (with short-term disability plans typically covering payments during the first three to six months); and it provides affected employees access to return-to-work expertise and assistance. Group disability coverage also benefits sponsoring employers by facilitating a quicker return to the job after a disabling incident and better retention of employees. While these direct benefits are the primary motivation for employers and workers to purchase private disability coverage, recent research has demonstrated and quantified federal budget savings arising from group disability coverage. We maintain that an expansion of the number of employees covered by private group disability insurance can and should play a significant and positive role in bolstering the long-term solvency of the SSDI program.

This paper proposes extending group disability income protection to a greater proportion of working Americans by encouraging employers to adopt automatic enrollment or "opt-out" arrangements under employer-sponsored group disability plans. Increasing the number of employees with group disability coverage will reduce the number of workers receiving SSDI benefits, since more workers affected by a disability will benefit from the income protection and return-to-work features of group disability coverage. Recent experience with a similar approach to boosting participation in employer-sponsored retirement savings plans has shown that opt-out arrangements can have a powerful and significant positive effect on employee participation in employer-sponsored benefit plans. Implementing opt-out arrangements in group disability plans should increase employee participation and facilitate more employers offering such benefits to their workers. We complement the opt-out arrangement proposal by proposing that the federal government facilitate education and outreach efforts to help working Americans and their employers understand the risk of disabling illness and injury, the financial implications of work disability, and what they can do to mitigate and protect against the risks of disability. This proposed education effort would amplify the efforts that group disability providers and employers would carry out to explain the workings of the new opt-out arrangements and group disability coverage.

To explain the fiscal benefits of group disability coverage to the SSDI program, this paper first quantifies the number of working Americans who have either avoided dependence on SSDI or reduced their time on the program's rolls as a direct consequence of group disability provider financial support and return-to-work assistance. Our analysis estimates that group disability insurance, at the current proportion of the U.S. workforce with coverage, will save the federal treasury at least $25 billion over the next 10 years—at least $10 billion in SSDI benefits and approximately $15 billion in other federal programs.

Based on current research, our analysis then sets forth attainable figures for the expansion of private income protection coverage arising from opt-out arrangements and calculates the resulting additional savings to the SSDI program. Our calculations indicate that for each 10 percentage point increase in the proportion of workers that have group disability coverage, 20,000 to 25,000 workers affected by a disabling condition would either avoid SSDI or spend less time receiving SSDI benefits. This would increase the savings that group disability coverage brings to the SSDI program by between $280 million and $350 million per year, or $2.8 billion to $3.5 billion over a 10-year period. The benefits to the SSDI program come from the higher overall return-to-work rates for workers with group disability coverage. Much of this return-to-work advantage comes in the first few months after disability onset—before affected individuals would receive SSDI benefits—and is therefore not recorded in available SSDI statistics. Absent group disability coverage, however, some number of affected individuals would decline in physical function and financial resources and therefore eventually need to apply for SSDI.

The benefits of expanded group disability coverage can reduce the burden on the SSDI program at minimal cost to the federal budget. The SSDI program itself would incur no costs. There may be some reduction in tax revenue if group disability premiums are paid with pre-tax dollars, but that would be at least partially offset by taxes on the benefit payments. The costs of the public education and outreach program would not be high, and would be at the discretion of budget authorities. The low cost of implementing this proposal to the federal government means that the benefit-to-cost ratio would be favorable, even recognizing the uncertainty and variability regarding participation rates and socio-economic characteristics of the additional population covered by group disability insurance. Also, the benefits to the SSDI program from implementation of this proposal are independent of, and in addition to, most SSDI program-specific proposals suggested elsewhere.

STATEMENT OF THE PROBLEM

SSDI provides crucial financial assistance to millions of families where a wage earner has experienced a disability of sufficient severity and duration to prevent him or her from working (SSA 2014). The current and longstanding orientation of the SSDI program, however, provides little support helping affected individuals get back to work.[1] Individuals receiving, or in the process of applying for, SSDI benefits largely must look elsewhere for supporting resources (Bardos, Burak, and Ben-Shalom 2015, 1-2).

Group disability plans, however, focus on getting affected individuals back to work when that is feasible and appropriate. The key insight into group disability plans is that they get to affected individuals early and with substantially more focused return-to-work effort than is possible through the SSDI program. Group disability coverage benefits the SSDI program primarily through two groups of affected individuals—those who avoid the SSDI program entirely and those who leave the SSDI program sooner than otherwise would happen.

1 The "Ticket to Work" program is an exception to this statement. It will be discussed more fully later in this paper.

Before discussing and quantifying the number of individuals avoiding or exiting the SSDI program as a consequence of group disability coverage, it is useful to highlight the differences between the SSDI and private group disability approaches, and what this implies for affected individuals.

Comparing SSDI and Group Disability Financial Support

There is a distinct difference in the level of financial benefits provided by SSDI and group disability programs. In 2013, SSDI payments to disabled workers averaged $13,757 per year, and most received less than $20,000 per year (SSA 2014, 21 & 122).[2] On average, SSDI benefits replace less than 35 percent of average pre-disability income, and that percentage declines as pre-disability income increases.[3] Group disability benefits are determined by the contract between the employer and the insurer. In 2013, 64 percent of private industry workers covered by group disability contracts had benefits equal to 60 percent of pre-disability annual earnings (BLS 2014, private industry worker Table 30).[4] For a worker earning $50,000 per year, a 60 percent replacement rate on pre-disability salary yields $30,000 in annual benefits. A worker earning $80,000 per year would obtain $48,000 per year in benefits at a 60 percent income replacement rate. Workers earning more than approximately $23,000 per year will obtain more income from group disability insurance at a 60 percent income replacement rate than the average SSDI benefit payment to disabled workers. Importantly, if the group disability premiums are paid with "after tax" dollars (i.e., not deducted from salary before the federal tax is computed), the amounts paid to beneficiaries are not taxable (Internal Revenue Service 2015; GenRe Research 2012, 50).

Key differences also exist between when SSDI and group disability coverage benefits commence. Under SSDI, eligibility for monthly cash benefits begins for most applicants five months after disability onset (SSA 2014, 3). But the five-month period is not the only timing consideration SSDI applicants face. In fiscal 2014, the average processing time for initial disability claims was 110 days, or about three and two-thirds months (SSA 2015a, 108). If the affected individual does not apply for SSDI benefits within the first two months of disability onset, the claimant will likely have to wait more than five months for benefits to start. In fiscal 2014, 68 percent of initial disability claims were denied (SSA 2015a, 143.) For the three-fourths of claims denials issued in states with a reconsideration phase, those individuals faced on average another 108 days for a determination on reconsideration in fiscal 2014—another almost three and two-thirds months (SSA 2015a, 108). Eighty-nine percent of appeals for reconsideration were denied in fiscal 2014 (SSA 2015a, 143). Another level of determination, an appeal to an administrative law judge, is available. In fiscal 2014, the average time for a decision at that level was 422 days—more than 14 months (SSA 2015a, 108). So the time from disability onset to receipt of SSDI benefits can be significant, even if the SSDI claim application is ultimately approved.

2 The average monthly benefit for all disabled workers was $1,222.34, and only 10.5 percent of beneficiaries received monthly benefits of $2,000 or more (SSA 2014, 122 Table 45).

3 The average monthly SSDI payment for disabled beneficiaries between the ages of 30 and 34 is $839.61. The median weekly earnings of workers between the ages of 25 and 34 are $701. For this age group, therefore, SSDI replaces 29.9 percent of median weekly earnings. Monthly SSDI payments to disabled beneficiaries between the ages of 50 and 54 average $1,113.52. The median weekly earnings of workers between the ages of 45 and 54 are $884. For this age group, therefore, SSDI replaces 31.5 percent of median weekly earnings (SSA 2104, 22 and BLS January 22, 2014, Table 3).

4 Twenty-four percent had benefits less than 60 percent (generally between 50 percent and 60 percent) and 12 percent had benefits exceeding 60 percent but no more than 67 percent (BLS 2014, private industry worker Table 30).

Though policies vary, under group disability plans it is common for long-term disability income benefits to begin three months or six months after disability onset. More employees are covered by short-term disability plans that provide income benefits soon after disability onset (a week in some cases) than are covered by long-term disability plans (BLS 2014, private industry workers Table 16). In most cases, the short-term and long-term group disability coverages are coordinated so that the affected individual experiences an integrated process of financial and return-to-work support during the initial months of the disability. This process contrasts sharply with the typical situation faced by SSDI applicants not also covered by group disability programs. The availability of the short-term coverage in conjunction with coordinated group disability coverage means that the financial situation of the families with these benefits is substantially superior to families without group disability benefits.

Return-to-Work Efforts of Group Disability Coverage Providers and SSDI

Return-to-work efforts, one of the key elements of group disability coverage, have been implemented and systematized in *comprehensive disability management* programs administered by private group disability insurers. There are a number of available product features and almost all group disability insurers offer reasonable accommodation benefits, rehabilitation, and return-to-work incentives (GenRe Research 2012, 52). These programs work with the employee, the employer and the employee's physician to align interests and expectations and thereby encourage the return to work of an employee experiencing a disability. They rely on timely communication with the involved parties to establish appropriate expectations regarding reemployment, establishment of a return-to-work plan, ongoing support and motivation, and the application of procedures appropriate to each return-to-work effort.

The steps involved in developing a return-to-work plan can include:

- Regular telephone contact with the employee experiencing a disability by a rehabilitation counselor or claim professional;
- A detailed job analysis of the tasks the employee was performing before the disability episode;
- A functional capacity evaluation to understand the tasks the employee is capable of performing subsequent to the disabling condition;
- Medical record review and return-to-work planning discussions with the employee's treating medical provider(s); and
- Partnering with federal and state job placement and vocational assistance programs.

Each return-to-work support plan is customized to the situation of the individual employee and might include the following services:

- Coordination with the employer to help the employee return to work;
- Identification of adaptive equipment or job accommodations that could enable the employee to resume job duties;
- A vocational evaluation to determine how the employee's disability may affect his or her employment options;
- Job placement services;
- Resume preparation; and

- Job-seeking skills training.

Early intervention and timely communications are crucial to successful return-to-work outcomes. Insurer vocational rehabilitation professionals engage in collaborative dialogues with employees experiencing disabling conditions to build a supportive relationship with the common goal of helping the employee recover and return to work (Bardos, Burak, and Ben-Shalom 2015, 4).

The SSDI program also offers employment support provisions. The "trial work period" allows a beneficiary to work and earn without losing benefits for up to nine months. The "extended period of eligibility" backstops work earnings with SSDI and Medicare benefits for up to 36 months. Finally, the "Ticket to Work" program provides beneficiaries the opportunity to obtain vocational rehabilitation services (SSA 2014, 6; Ben-Shalom and Mamun 2015, 2).

Costs to Employees and Employers

Together, private sector employees and employers pay an amount equal to 1.8 percent of salary (0.9 percent each) on up to $118,500 in earnings in 2015 to fund SSDI (Social Security and Medicare Boards of Trustees 2015, 13; SSA 2015b). An employee making $50,000 per year, therefore, has $900 in annual payroll tax designated for SSDI, while an employee making $118,500 or more per year in salary has $2,133 in annual payroll tax for SSDI. Since 2003, payments from the SSDI trust fund have exceeded the SSDI payroll tax receipts, and the trust fund is currently projected to be completely depleted in 2016 (Social Security and Medicare Boards of Trustees 2015, 9-10). This indicates that the 1.8 percent payroll tax has yielded less than the actuarial cost of the program for at least the past decade.

Group disability premiums are paid by the employee, employer, or some combination. GenRe Research reported average group disability premiums of $245 per covered employee per year in 2013, while average new group disability sales premiums were $226 per covered employee annually (GenRe Research 2014, 7). The Council for Disability Awareness notes, "A traditional employer-sponsored long-term disability insurance plan tends to cost about $250 to $400 a year. Premiums are often fully or partially picked up by the employer" (Council for Disability Awareness 2014b, 7). Given that group disability coverage is not legally mandated, but provided as part of an overall compensation package, group disability providers succeed only when their services are perceived to offer higher value than that same money used elsewhere in the compensation package.

Implications

Group disability coverage offers both financial and return-to-work support. As a consequence, a significant number of affected individuals (quantified later) avoid deterioration in functional and financial circumstances and therefore avoid receiving SSDI benefits. These individuals do not show up on SSDI rolls and may not even apply for SSDI benefits. Nevertheless, the SSDI program benefits substantially from the efforts of group disability providers to get thousands of employees each year back to work.

For more severely affected individuals who receive SSDI benefits, group disability coverage continues to support them financially and with work reengagement programs. For claimants identified as having the potential to return to work, group disability insurers work with the disabled employee to get him or her back to work, perhaps with accommodations identified and financed by the group disability providers. Here again we see a direct benefit to the SSDI program, as individuals exit SSDI rolls sooner than would be the case if the group disability coverage was not available.

DETAILED PROPOSAL

To harness the ability of private group disability programs to reduce the number of people receiving SSDI benefits, we propose: (1) enactment of legislation to make clear that opt-out arrangements under disability income plans are permitted (but not mandated) under federal law and (2) that the federal government undertake education and outreach to provide working Americans with information and resources regarding disability income security.

Increase Group Disability Coverage of Working Americans by Encouraging Employers to Adopt "Opt-out" Arrangements for Employer-Sponsored Income Protection Plans

Employers are not required to offer group disability as a component of their compensation package and not all employees elect group disability coverage when their employers offer the coverage. According to data reported by the Bureau of Labor Statistics, 34 percent of surveyed private industry workers have access to employer-sponsored group disability insurance and 97 percent of those workers sign up for the coverage when available. Consequently, about one-third of all private industry workers are covered by group disability insurance (BLS 2014, private industry workers Table 16). Industry research, however, indicates a lower employee participation rate when employees pay all or part of the premiums, which suggests that the 97 percent figure in the survey reflects a high portion of responses pertaining to 100 percent employer-paid plans When employees pay all or part of the premiums, participation rates fall in the 30 to 50 percent range—higher as the portion the employer pays increases and as age decreases (GenRe Research 2012, 64-5; LIMRA 2015, Table 2).

Some employers sponsor income protection plans on an opt-out basis, but most do not. One reason is that employers are unsure that such arrangements comport fully with state payroll laws requiring employee consent prior to payroll reductions. The U.S. Department of Labor has provided guidance indicating that certain employer-sponsored benefits are not subject to state payroll law provisions that would frustrate opt-out arrangements, but the department has not specifically addressed the application of these laws to disability income protection opt-out arrangements. Case law has not clarified the issue. Congressional action to confirm the permissibility of opt-out arrangements within income protection plans would eliminate uncertainties and send a strong signal of the importance of disability income protection coverage.

There are any number of reasons—inertia, distraction, uncertainty, or procrastination—an employee is more likely to fail to act in his or her long-term interests when plan enrollment requires a timely affirmative action in the face of competing demands and insufficient information. Opt-out arrangements change the default outcome to enrollment, and therefore make plan participation much more likely.

Increase Employer Sponsorship of Group Disability Insurance Coverage and Employee Plan Participation through Education and Outreach

To complement the implementation of the opt-out proposal outlined above, the federal government should undertake a concerted and sustained education and outreach campaign to encourage workers and employers to face the key disability income security and workforce productivity issues. As up to two-thirds of private sector American workers are not covered by employer-sponsored disability income insurance against the loss of income due to illness or injury, there is clearly much outreach to do. More than half of American workers indicate that they know little—or nothing at all—about disability income insurance (Consumer Federation of America 2012, 3).

Lack of understanding about important disability income security issues has been a stubborn problem despite the educational and marketing efforts of the private providers. The federal government could help address this by facilitating dissemination of information about the risk of disabling illness and injury; the financial implications of work disability; and what working Americans can do to protect income security against the risk of work disability. This would be an especially helpful resource for working Americans presented with a need to consider income protection coverage under plans with opt-out enrollment arrangements.

Employers, too, would benefit from information regarding the role of group disability coverage in maintaining workforce productivity and helping ill or injured employees return to work. Such information, with the *imprimatur* of the federal government, could do a great deal to raise the profile of disability income security issues for employers and employees. The public education and outreach efforts, in conjunction with the opt-out arrangement and private provider education and marketing, would facilitate greater participation in group disability coverage.

ANALYSIS OF THE PROPOSAL

The essential premise of this proposal is that group disability coverage, particularly through return-to-work programs, helps affected workers avoid or spend less time on SSDI status. Below we summarize the research supporting and quantifying the number of workers helped by group disability coverage, the estimated savings to the SSDI program arising from the reduction in beneficiaries, the additional benefits arising to the federal government from group disability coverage, and the evidence from another federal policy that provides support for the efficacy of the automatic enrollment proposal. Similar to the approach taken in Bardos, Burak, and Ben-Shalom (2015), we pull together various strands of research that demonstrate empirical support for the efficacy of group disability financial support and return-to-work programs.[5]

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[5] To conduct a rigorous and comprehensive study of disability, recovery, and reemployment, we would ideally like to be able to determine whether and when the condition of the worker with a disability improves to the point where he or she is once again employable both in the absence and the presence of group disability coverage and SSDI status.

In theory, one could design a study where a portion of the employees with disabilities covered by group disability insurance received disability management services and another "control group" did not. The difference in recovery and return-to-work profiles, incorporating the appropriate statistical controls, could then be observed in the resulting data. This type of study is commonly used to evaluate the effectiveness of medications or medical procedures. Such a study, however, would not be feasible in the case of group disability insurance. First, withholding disability management services to covered employees for the sake of this sort of information would not be fair to the control group. Such a study protocol would require withholding assistance from individuals who would benefit from the assistance. Second, withholding such services would also be costly for the insurer. The insurer would have to keep paying benefits instead of helping the individual to recover and become employed. Third, the nature of the services means that the study cannot be conducted in a "double blind" fashion. Therefore, the pure scientific value of such a study protocol cannot measure up to the scientific research "gold standard" and may be subject to criticism and dismissal, which would decrease the motivation for attempting to conduct such a study in the first place.

Because it is not feasible to conduct a direct experiment comparing a randomly selected group with access to group disability insurance and disability management programs to a control group without those benefits, this study

The Effect of More Timely Support

One way the benefit of group disability coverage shows up is the mere fact of substantial and coordinated financial support for the affected family provided shortly after the onset of a disability results in a higher probability that the affected individual will reenter the job market. An academic working paper examining experience in the SSDI program calculated the probabilities for the ability of affected individuals to reengage in work as a function of the time spent waiting for a SSDI determination (Autor et al. 2011). This paper starts by observing "that SSDI applicants must engage in a prolonged period of labor force nonparticipation while they seek [SSDI] benefits." It then proceeded to note the following:

> If applicants' employment potential deteriorates while they are out of the labor force, then the observed, post-application labor supply of denied and allowed applicants may understate their employment potential at the time of SSDI application. Moreover, if either the rate of deterioration or average SSDI determination time differs between allowed and denied applicants, a comparison of their post-SSDI determination labor supply may not identify the pure effect of the SSDI award on employment outcomes. (Autor et al. 2011, 1)

Using data from all initial SSDI medical determinations in 2005, this study econometrically tested the hypothesis that the rate of post-disability employment was lower the longer the "time to decision." The authors determined the effect of the time lapse from initial SSDI application until determination on employment and earnings two, three and four years after the application—i.e., in 2007, 2008 and 2009. The data set consisted of more than 1.1 million observations, one-third where the application was approved on initial submission and two-thirds where the application was initially denied (Autor et al. 2011, 25). Figure 1 graphically summarizes results from this study.

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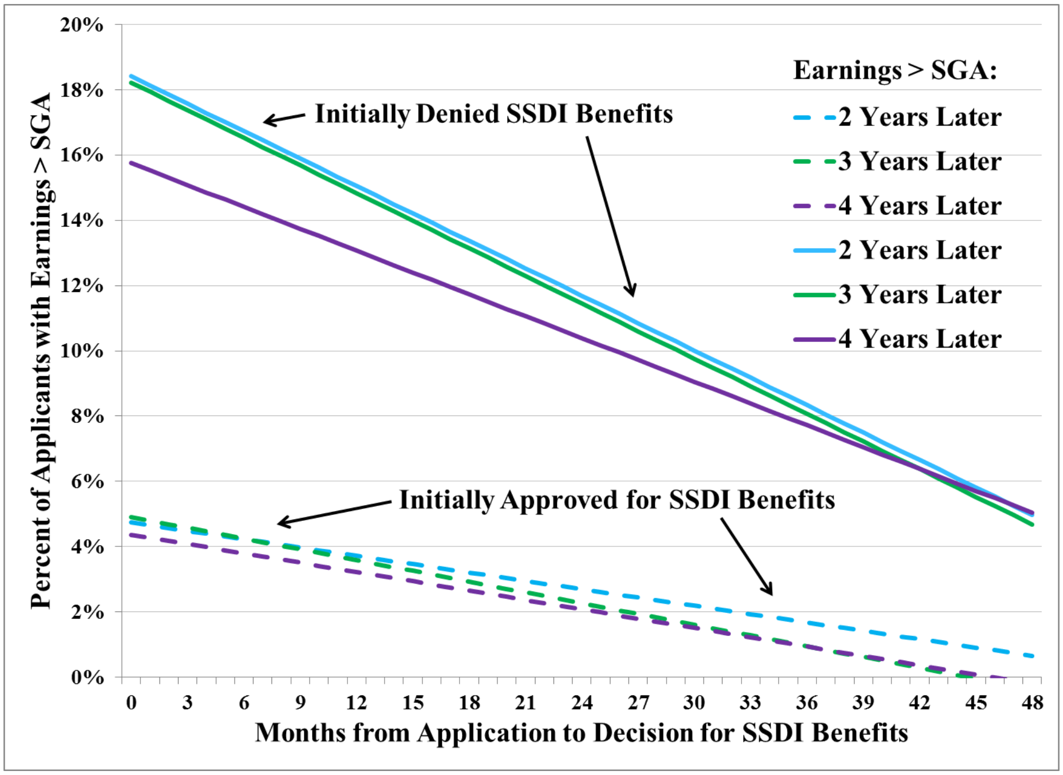
quantifies the benefits of group disability insurance indirectly using publicly available data that are sparse, aggregated, and often challenging to interpret. We nevertheless believe that the evidence below supports the efficacy of group disability insurance coverage in reducing the SSDI rolls.

Figure 1: Effect of Delay on Employment of SSDI Applicants



Source: Calculated from regression results presented in Autor et al. 2011, 30 Table 6.

The horizontal axis in Figure 1 shows elapsed time, in months, from the application for SSDI benefits until a final determination of SSDI status was made. The vertical axis shows the percentage of the SSDI applicants who experienced earnings in excess of the Substantial Gainful Activity (SGA) threshold—approximately $12,000 per year (SSA 2014, 2). The important conclusion of the study as summarized in Figure 1 is captured in the downward slope of all the lines. The longer it took for an SSDI applicant to receive a decision—whether approval or denial, upon initial review or reconsideration or appeal—the lower the percentage of applicants who had earnings in excess of SGA. The Autor et al. study documents the proposition that the time involved in getting an SSDI decision, with no other services provided, affects post-disability employment prospects.[6] Delay in determining SSDI status alone reduces substantially the likelihood of the individual being reemployed after a disability episode.

A subsequent study by three of the four authors of the Autor et al. study directly examined the effect of SSDI benefits on employment of SSDI applicants. That study found that employment would have been 28 percentage points higher for the roughly one-quarter of SSDI beneficiaries "on the margin of

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6 The Autor et al. study is rigorous, comprehensive, and sophisticated in its empirical protocols. The paper presents a number of alternative specifications, some of which have arguably superior statistical properties to the specifications underlying the relationships exhibited in Figure 1. The regressions represented in Figure 1 were chosen because: (1) they are based on the largest number of observations, (2) they split the observations into groupings that are pertinent to the goals of this study, and (3) the empirical results are close to those represented in other, arguably statistically superior specifications. See the Autor, et al. study for more details.

program entry" had they not received SSDI benefits. The effect, understandably, varies substantially depending on the severity of the impairment. Employment rates for those with less severe disabilities would be 50 percentage points higher in the absence of SSDI benefits (Maestas, Mullen, and Strand 2013). We suggest that these are SSDI beneficiaries that could have returned to work had they received appropriate support—support that group disability insurers are motivated and able to supply. In their evaluation of the Maestas, Mullen and Strand (2013) article, Bardos, Burak, and Ben-Shalom write, "with just modest assistance, more than 120,000 [SSDI recipients] could have returned to work but did not." (Bardos, Burak, and Ben-Shalom 2015, 2).

These studies support the proposition that private group disability coverage can increase post-disability employment rates due to the financial and return-to-work support provided. This is because the affected families with private disability insurance have substantial support early in the disability episode, which leads to higher overall employment rates for those workers experiencing a disability episode. Importantly, many individuals successfully helped by group disability coverage would be invisible to analysts investigating SSDI termination results. The return-to-work benefits of group disability coverage occurred before the individuals would join the SSDI beneficiary rolls.

Return-to-Work Program Effects

A second way group disability coverage helps individuals suffering from a disability to reengage in the labor market arises from specific return-to-work efforts. Once again, direct evidence for the efficacy of return-to-work programs comes from an examination of efforts within the SSDI program. In addition, there is indirect evidence that the return-to-work efforts of group disability insurers help a substantial number of affected individuals reengage the labor market.

Evidence supporting the effectiveness of a return-to-work element on increasing the likelihood of post-disability employment comes from studies of the experience of SSDI recipients. The Ticket to Work "provides disabled beneficiaries with a voucher they may use to obtain vocational rehabilitation services, employment services, and other support services from an employment network of their choice." (SSA 2014, 2) One study, summarized in Table 1 below, found that the Ticket to Work participants experienced a substantially higher rate of success finding employment than SSDI beneficiaries not enrolled in the Ticket to Work program.

The "success rate" measured in Table 1, however, is modest—the first incidence of a suspension (not the termination)[7] of SSDI benefits. The facially important conclusion from this study summarized in Table 1 is that the Ticket to Work program yielded from well over double to over 10 times the likelihood of some level of post-disability employment compared to the cohort of SSDI recipients who did not participate in the program.

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7 Before SSDI benefits can be terminated, they are generally suspended. SSDI payments are terminated for those beneficiaries when their SGA on a monthly basis exceeds certain thresholds after the exhaustion of the mandated "trial work period" and "extended period of eligibility." (SSA 2014, 6)

Table 1: Employment by Participation in Ticket to Work Programs

Social Security Disability Insurance Recipients	Percentage of all SSDI beneficiaries experiencing first STW (suspension or termination of benefits for work) event				
	2002	2003	2004	2005	2006
Ticket-to-Work participants	2.58%	3.76%	4.11%	4.54%	3.84%
Milestone-outcome	3.66%	5.73%	5.04%	6.08%	4.71%
Outcome-only	4.23%	9.69%	9.43%	8.48%	6.57%
Traditional	2.33%	3.22%	3.79%	4.21%	3.64%
Nonparticipants	0.87%	0.83%	0.77%	0.77%	0.65%

Source: Schimmel and Stapleton 2011, 87. In this study, Ticket to Work participants were placed into one of three different programs: Milestone-outcome, Outcome-only and Traditional. As reported in the table above, the programs had different rates of "beneficiaries experiencing first STW event."

O'Neill et al. (2015) "examined the progression to substantial employment milestones for DI beneficiaries over a 10-year period beginning with their entry into the DI program (1)." They found that SSDI recipients who enrolled in state vocational rehabilitation agency services had "substantially better" return-to-work experience than those not enrolled in such programs. More specifically, O'Neill et al. found that SSDI recipients who participated in state vocational rehabilitation programs experienced a 46 percent to 100 percent increase in the rate of suspension or termination from the SSDI program due to work, relative to a matched comparison group (8).

There are at least two limitations when applying Ticket to Work program results to group disability insurance. First, the measure of post-disability employment used in the Ticket to Work studies is below that considered successful for private group disability coverage—the return of the affected individual to his or her employer.[8] Second, self-selection permeates participation in the Ticket to Work program. This means that the Ticket to Work results have only limited applicability to private group disability return-to-work programs. Nevertheless, this line of research also supports the proposition that intentional efforts to help individuals with disabilities reenter the workplace do result in higher post-disability employment rates.[9]

Data on return-to-work outcomes consistently shows that a significantly higher proportion of group disability claimants return to the workforce than the proportion of SSDI beneficiaries who have benefits terminated for income above the Substantial Gainful Activity" limits.[10] As reported in Table

8 Many policies have an "own job" provision for the first two years of group disability coverage, thereafter switching to an "any job" provision.

9 A companion study of the Ticket to Work program, using a longitudinal approach, found that 3.7 percent of those individuals made eligible for SSDI benefits were off the SSDI rolls by December 2006 after participating in the Ticket to Work program. (Liu and Stapleton 2011).

10 The limits for Substantial Gainful Activity in 2013 entailed income from employment in excess of $1,040 per month for individuals able to see, and $1,740 per month for a person experiencing blindness (SSA 2014, 2).

SSDI payments are terminated for beneficiaries whose SGA on a monthly basis exceeds certain thresholds after the exhaustion of the mandated "trial work period" and "extended period of eligibility." "Disabled beneficiaries are encouraged to return to work by providing a trial work period (TWP) and an extended period of eligibility (EPE). During the TWP, earnings are allowed to exceed the SGA dollar amount for nine months. During the three-year EPE that follows the TWP, benefits are withheld only for those months in which earnings exceed the SGA amount. After

2 below, only about one-half of one percent of SSDI beneficiaries stop receiving benefits in any year by returning to work. In contrast, the return-to-work outcomes for private group disability beneficiaries are considerably better—a return-to-work rate of 1.5 percent to 2.0 percent annually.

Table 2: SSDI Aggregate Termination for Work and Group Disability Insured Recovery Rate

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SSDI	N/A	N/A	N/A	N/A	0.55%	0.53%	0.48%	0.46%	0.56%	0.53%	0.47%	0.51%	0.42%	0.50%	0.46%	0.43%	0.35%
GLTD	1.64%	1.65%	1.83%	1.89%	2.02%	1.97%	1.89%	1.84%	1.84%	1.83%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Sources: SSDI row: O'Leary, Livermore, and Stapleton 2011, Table 2 for years from 2001 to 2009; SSA 2014, "Work Above SGA" for workers in Table 50 divided by "Workers" in Table 1 for 2010 through 2013;
GLTD, group disability, row is derived from Society of Actuaries 2011, Pivot Table.

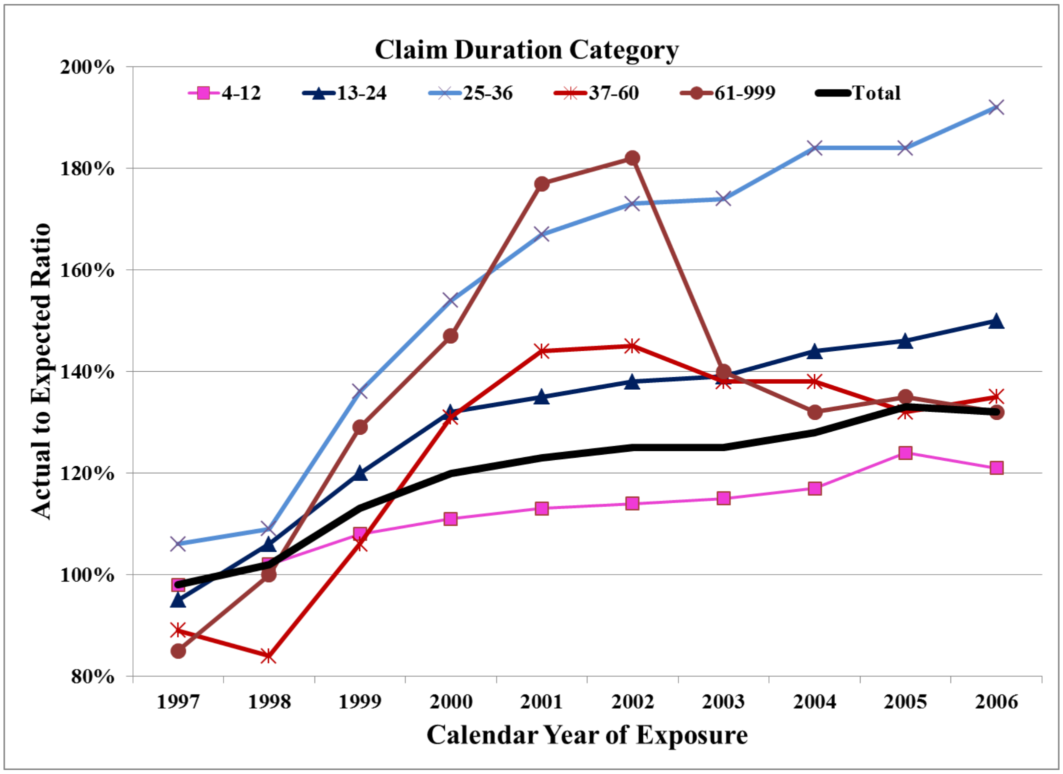
Note that the 1.57 percent figure for the average over 1997 through 2006 is not directly comparable to the 0.5 percent figure for the SSDI program, as it includes recipients who recovered from their disability condition in less time than it would take someone applying for SSDI benefits to be approved for eligibility. Excluding from the calculations those workers who "recovered" in less than six months, the overall group disability claimant recovery rate was 1.14 percent. Excluding those experiencing a disability who recovered in less than 12 months yields a 0.72 percent recovery rate. From Table 2 and the information in the Schimmel and Stapleton (2011) and O'Neill et al. (2015) studies, the available data support the proposition that those SSDI recipients receiving return-to-work support reenter the work force at 50 percent to 100 percent higher rates than those receiving only SSDI benefit payments.

Additional materials in the Society of Actuaries *2008 Long-Term Disability Study Report* reveal that recovery rates in the 1997 to 2006 period improved over expectations based on the experience of prior years. Figure 2 summarizes this information. The Society of Actuaries' Long Term Disability Experience Study Committee compared the results derived from the new data against that available from the *1995 Long Term Disability Experience Study* (Society of Actuaries 2009, 10). Notably, the recovery experience in the 2008 table for 1997 and 1998 comports quite closely to the experience predicted from the 1995 table. There are differences by duration from disability episode grouping, but 1997 and 1998 look to average out fairly closely to what would have been projected using the older experience table (98 percent and 102 percent of expectations, respectively).

Starting in 1999 and continuing through 2006, however, the actual recovery experience exceeded that projected from the 1995 table. While claim durations of four to 12 months improved by approximately 20 percent from 1997 to 2006 relative to what the 1995 experience table would project, for other claim durations the improvement in recovery was considerably higher. Reviewing Figure 2 and the associated data, disability claims with a duration of 13 to 24 months had a 40 percent higher recovery rate in 2006 than projected by the 1995 experience table. Disability claims with a duration of 25 to 36 months experienced almost double the recovery rate by 2006 than that projected by the 1995 experience table. After first declining relative to the 1995 experience, disability claims with a duration of 37 to 60 months ended up about 20 percent higher in 2006 compared to expectations. Disability claims with a duration of more than 60 months first experienced a strong recovery rate relative to the 1995 table, and then ended up about 20 percent higher by 2006.

the end of the EPE, monthly benefits are terminated when earnings exceed the SGA amount. . . . Even if cash benefits are withheld, Medicare and Medicaid coverage can continue." (SSA 2014, 6.)

Figure 2: Recovery Rate Experience by Year and Claim Duration Compared to 1995 Group Disability Experience Study

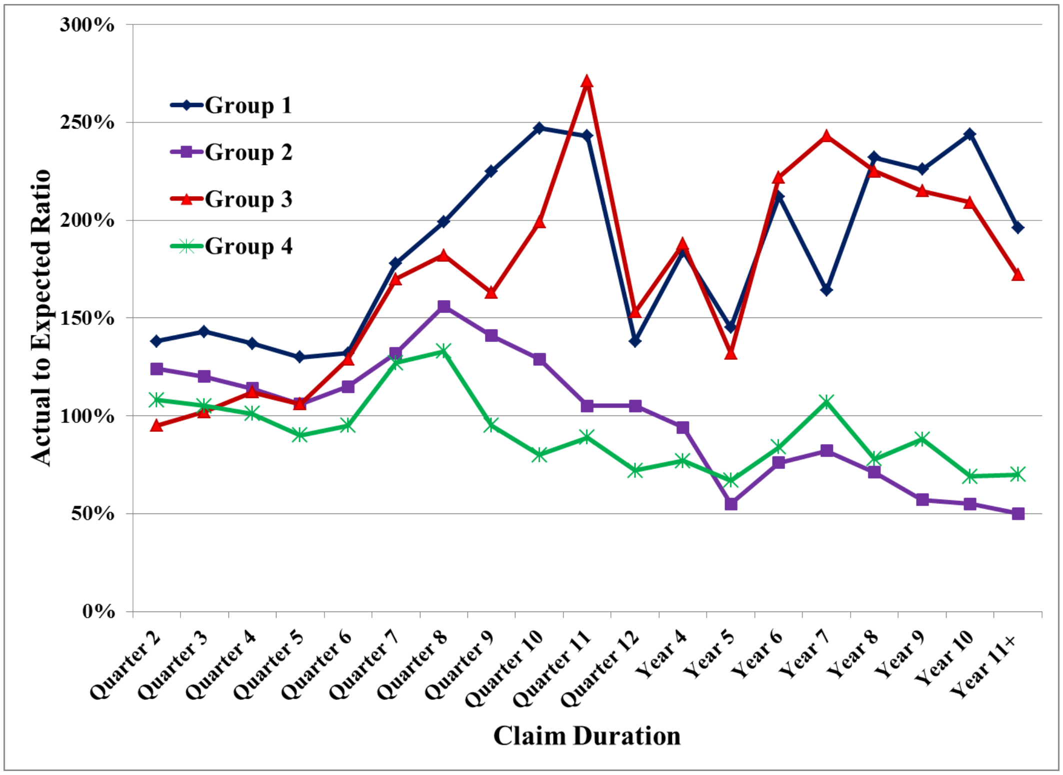


Source: Society of Actuaries 2009, 24, Table 3.1.A.

Figure 3 presents another look at the 2008 experience table compared against the 1995 table supporting the position that focused recovery efforts lead to higher post-disability employment. In Figure 3, the disability insurers are combined into four groups by "similar patterns of death and recovery A/E [actual 2008 study data to expectation based on the 1995 table] results." (Society of Actuaries 2009, 69). While it is clear that this was a period of substantial progress in medical technology, the patterns exhibited in Figure 3 above suggest that some insurers experienced much better recovery rates than others over the entire period. Group 1 insurers, for example, averaged 50 percent higher than expected recovery rates over the entire duration span, and in some durations exhibited over 100 percent higher than expected recovery rates. This is in sharp contrast to the Group 4 insurers, whose overall experience in the 1997 through 2006 data was not substantially different from that projected using the 1995 experience table.

Taken together, the phenomena portrayed in Figures 2 and 3 support the proposition that private sector group disability coverage enhances post-disability employment.

Figure 3: Recovery Rate Experience by Company Group



Source: Society of Actuaries 2009, 70-71, Chart 10.1.B and Table 10.1.A.

While neither the SSDI nor group disability studies provide direct quantification of the reduction in SSDI rolls as a consequence of group disability coverage, they all support the proposition that the existence of group disability coverage and associated disability management processes do result in higher post-disability employment rates. The range of observed improved re-employment is substantial—a minimum of 20 percent up to double or even triple. Consequently, we estimate that there are tens of thousands of individuals working today who would be on the rolls of SSDI and other federal programs if they had not had group disability coverage.

Research on the Number of Workers Avoiding SSDI because of Group Disability Coverage

With the proposition now established that group disability coverage can and does get affected individuals reengaged in the labor market, the next task is estimating the number of individuals who experienced a disability and then <u>avoided</u> or <u>exited</u> federal programs as a consequence of group disability coverage and its attendant comprehensive disability management programs.

There are two groupings of individuals who have avoided SSDI status as a consequence of group disability coverage. First, there are those where the worker with a disability received group disability benefits and payments and *subsequently returned to work*, but in the absence of the group disability benefits and payments would have eventually needed SSDI. Second, there are those where the worker with a disability received group disability benefits and payments and *never returned to work*, but in the absence of the group disability benefits and services would have eventually become eligible for SSDI. These workers also *"avoided"* SSDI status completely. While individuals in both of these groups avoided SSDI status, only the first group can be considered a successful return-to-work situation for the group disability provider. People in the second group are not capable of returning to work, but are not impaired enough to qualify for SSDI.

There are also two groupings of individuals who have exited SSDI status as a consequence of group disability coverage. First, there are those where the worker with a disability received SSDI benefits, but also received group disability benefits and payments and, as a consequence, returned to work. These workers *would have remained* on SSDI status until retirement or death in the absence of group disability coverage. These workers *"exited"* SSDI status. Second, there are those where the worker with a disability received SSDI benefits but also received group disability benefits and payments and, as a consequence, *returned to work faster* than in the absence of the group disability benefits and payments. These workers would have eventually exited SSDI, but the group disability coverage accelerated their exit. These workers *reduced their time* in SSDI status.

For purposes of this paper, the situations can be summarized along two dimensions – (1) whether the worker with a disability was ever eligible for SSDI and (2) whether the worker with a disability recovered enough to reengage in work. Table 3 depicts the situations along these two dimensions.[11]

Table 3: Taxonomy of Situations by Recovery and SSDI Status

		Recovery Status	
		Not Working	**Working**
SSDI Status	**Eligible**	***Receiving SSDI.***	**Exited or reduced time on SSDI status.**
	Not Eligible	**Avoided SSDI status.**	**Avoided SSDI status.**

Babbel and Meyer (2013) undertook a detailed examination of the available information to provide figures for the cells in Table 3. Solid figures pertaining to the "Not Working" column are available from information provided by the private disability insurers and compiled by the Council for Disability Awareness, the nonprofit organization whose supporting members include many of the major private disability insurers. There were approximately 653,000 individuals receiving long-term disability benefit payments from insurers in 2013, and 72 percent of these (approximately 470,000) were also eligible for SSDI. This means that 28 percent of those receiving private long-term disability payments (approximately 183,000) were not eligible for SSDI at that time (Council for Disability Awareness 2014a, 3-4). We can use this information to provide figures for the left column in Table 3, the "Not Working" column.

We can calculate the number of individuals in the right columns using information from the *2008 Long Term Disability Experience Table Report*. We know that in the 10 years from 1997 through 2006, companies participating in the *2008 Group Long Term Disability* study experienced 1.2 million disability claims (Society of Actuaries 2011, 3). This is an average of 120,000 new private disability claims per year. We also know that in the years from 2008 through 2012, the companies participating in the

11 Note the situation depicted in the shaded, upper left cell of Table 3. This represents those unemployed workers with disabilities receiving private disability insurance payments as well as SSDI benefits. These individuals are not the focus of this study as they have not avoided or reduced their time on SSDI. The workers with disabilities in this situation form part of the population investigated in Babbel et al. 2011. That study found that these workers with disabilities benefited substantially from private disability insurance as it prevented them from becoming impoverished. This, in turn, benefits the federal government by reducing demand on federal programs such as Temporary Assistance to Needy Families, Supplemental Nutrition Assistance Program, Medicare, Medicaid, housing subsidies, etc.

Council for Disability Awareness *Disability Claims Review* approved more than 150,000 new disability claims in each year (Council for Disability Awareness 2014a, 2). Consequently, in every year since 1997 there have been at least 100,000 (actually, most likely somewhere between 120,000 and 150,000) new disability claims extending for at least six months after the disability incident in each year. Applying the monthly recovery rates for each quarter or year after disability, we find that each 100,000 claims yield over 5,000 recoveries from the point six months after the onset of the disability through Year 11.

The 5,000 recoveries per 100,000 claims is a figure derived from an annual number of new group disability claims. Each year for more than two decades now, there have been at least 100,000 new group disability claims. The benefit to the federal government would come from cumulating each year's new disability claim recoveries into a number of recoveries over all available years of disability claims. Five thousand recoveries over 20 years yields 100,000 total recovered employees. Over the course of 20 years, a portion of the formerly disabled employees would either retire or die, removing them from the current number of those not currently on SSDI due to the previous group disability benefits. Applying the appropriate mortality and retirement rates results in at least 50,000 individuals currently working who experienced disabilities at some point in the past 20 years.

The evidence from the SSDI and private group disability programs previously discussed indicate that a focused return-to-work effort results in at least a 50 percent improvement in getting individuals suffering from a disability back to work. It is conservative, therefore, to posit that between one-quarter and one-third of the approximately 183,000 individuals receiving group disability benefits (but not SSDI benefits) and not working would likely receive SSDI benefits in the absence of their group disability coverage. Similarly, approximately one-third of the 50,000 employees who received group disability benefits, but who are now working, would receive SSDI benefits had they not had the benefit of group disability coverage. Table 4 summarizes the figures on the estimated number of individuals avoiding, exiting or reducing time on SSDI as a consequence of group disability coverage.[12] The figures reported in Table 4 are the current best estimates based on the application of parameter estimates incorporating cautious and conservative assumptions.

Table 4: Estimating the Number of Individuals Avoiding Federal Programs Due to Private Sector Disability Insurance Programs

Not on SSDI Due to Group Disability Insurance		Recovery Status	
		Not Working	**Working**
SSDI Status	**Eligible**	None	At least 15,000
	Not Eligible	~50,000	

Source: Authors' calculations.

Savings to SSDI Due to Group Disability Coverage

SSDI pays most worker beneficiaries less than $20,000 per year (SSA 2014, 18). In 2013, about 8.9 million SSDI worker beneficiaries received an average annual benefit of $13,757 (SSA 2014, 21). The 65,000 individuals not now on SSDI because of their access to group disability coverage means that

12 For presentation purposes, the figures have been rounded—one-quarter of ~183,000 is 45,750, one-third of 183,000 is 61,000, and one-third of at least 50,000 is 16,667. Combining these and rounding again yields approximately 50,000 and 15,000, hence the "at least 65,000" figure. These figures are likely underestimated, as there have been more than 100,000 private disability claims annually over the past 20 years.

approximately $900 million per year in SSDI payments are avoided due to the past return-to-work efforts on the part of group disability insurers.

The Social Security Disability Insurance Trust Fund, the funding mechanism for SSDI, held $90.4 billion in reported total asset reserves as of December 31, 2013 (Social Security and Medicare Boards of Trustees 2015, 2). Absent the comprehensive disability management programs of group coverage providers, fewer workers with disabilities would have returned to work, more workers with disabilities would be receiving SSDI benefits, and SSDI alone would have had to pay an additional $10 billion to $15 billion in benefits over the past two decades. This means that the Disability Insurance Trust Fund would have approximately 10 percent to 15 percent fewer assets than those reported at the end of 2013.

Additional Benefits to the Federal Government from Group Disability Coverage

SSDI is not the only federal program available to the families affected by the disability of a wage earner. The average annual cost for each of the 4 million nonelderly individuals with disabilities benefiting from the Supplemental Nutrition Assistance Program in FY 2013 was $2,450 (U.S. Department of Agriculture 2014, 19).[13] In 2012, the 9.7 million individuals with disabilities enrolled in Medicaid averaged $17,255 in medical expenditures (U.S. Department of Health and Human Services 2013, 13).[14] If a worker with a disability accessed just those two programs at their average amounts reported for the most recent years, he or she would require approximately $15,000 to $20,000 in annual expenditures. This assumes, of course, that those programs are the only ones accessed by the hypothetical worker with a disability. Average expenditures will be higher to the extent that workers with disabilities access other federal or state programs.

Given the information available, it appears that each worker with a disability who did not require assistance from public programs by virtue of private disability coverage saves the federal government at least $30,000 each year. This $30,000 figure results from assuming that the individuals would receive average SSDI benefits and lower-than-average SNAP and Medicare/Medicaid payments for individuals with disabilities. If the individual with a disability is eligible for SSDI and SNAP payments that are higher than average, plus substantial medical expenses, the annual cost to the federal government could be higher. The available information supports an average savings to the federal government of $30,000 per year for each worker that experiences a disability but is not on federal programs due to the disability management programs of private disability insurers. In their examination, Bardos, Burak, and Ben-Shalom identify fiscal benefits to taxpayers ranging from $160,000 to $290,000 as a consequence of getting a disabled employee back to work within a year of disability onset. These are "almost entirely due to foregone government benefits that would be

[13] Average monthly SNAP benefits for nonelderly individuals with disabilities were $204. Those living alone received an average monthly SNAP benefit of $119 ($119/person) while those not living alone received an average monthly SNAP benefit of $331 ($103/person). The $204 per month average figure covers both individuals living alone and those living with others. To the extent that the nonelderly individual with a disability receiving SNAP benefits lives with more than one other eligible person, the benefit figure increases by approximately $100 per month per person. So a family of four would receive, on average, about $430 per month (U.S. Department of Agriculture 2014, 19).

[14] A 2011 study using 2005 data found SSDI recipients look to have required an average of $13,999 in expenditures for Medicaid, $4,599 in expenditures for Medicare, and $22,728 in expenditures for "dual eligible" (Autor, Chandra, and Duggan 2011, 5-6).

received by the worker with a disability if he or she were unable to return to work," cumulated over the remainder of the employee's work career (Bardos, Burak, and Ben-Shalom 2015, 34-35).

Above and beyond the reduction in federal expenditures for SSDI outlined above, the federal government would also benefit from higher tax revenues as workers with disabilities become reemployed. Incremental federal income and payroll tax revenue arising from reemployment is a function of the post-disability income. If the reemployed group disability insurance beneficiary averages $50,000 per year, which is approximately the average for nondisabled workers,[15] incremental Social Security and Medicare taxes would be approximately $7,650 per year, while additional federal income taxes on that amount would be around $3,000 per year. So the incremental federal tax revenue arising from reemployment would be about $10,000 per year per worker covered by group disability insurance if the post-disability salary was $50,000.

Summing the results from all the relevant situations, the federal government benefits by at least $2 billion per year from workers who experienced a disabling condition but whose group disability coverage facilitated reemployment. As this analytical effort was conservative when selecting responses from the range of responses observed in the data—conservative in the sense of using figures leading to a lower effect—the $2 billion per year estimate is likely below that experienced in the current (and future) environment. At an average annual SSDI benefit payment of $13,757, SSDI savings alone amount to almost $900 million per year. Given foreseeable demographic trends and projected inflation rates, group disability insurance as currently configured will save the federal treasury at least $25 billion over the next 10 years—at least $10 billion in SSDI benefits and approximately $15 billion in other federal programs.

Looking to a future with an opt-out enrollment program entails projecting the responses of employers and employees to such a change. For now, note that for each 10 percentage point increase in the proportion of workers that have group disability coverage (e.g., from 33 percent to 43 percent), the methodology employed above calculates that ultimately between 20,000 to 25,000 additional workers affected by a disabling condition either would avoid or spend less time on SSDI status because of group disability coverage. These additional 20,000 to 25,000 reemployed workers would increase the savings that group disability brings to the SSDI program by between $280 million and $350 million per year, or $2.8 billion to $3.5 billion over a 10-year period.

Supporting Evidence from the Opt-out Arrangement for Participation in 401(k) Defined Contribution Programs

The Pension Protection Act (PPA) of 2006 facilitated mechanisms for employers to adopt opt-out enrollment features in their 401(k) retirement savings programs (Employee Benefit Research Institute 2009, 191).[16] Since passage, the opportunity for opt-out enrollment in 401(k) defined contribution plans has substantially increased as summarized in Figure 4.

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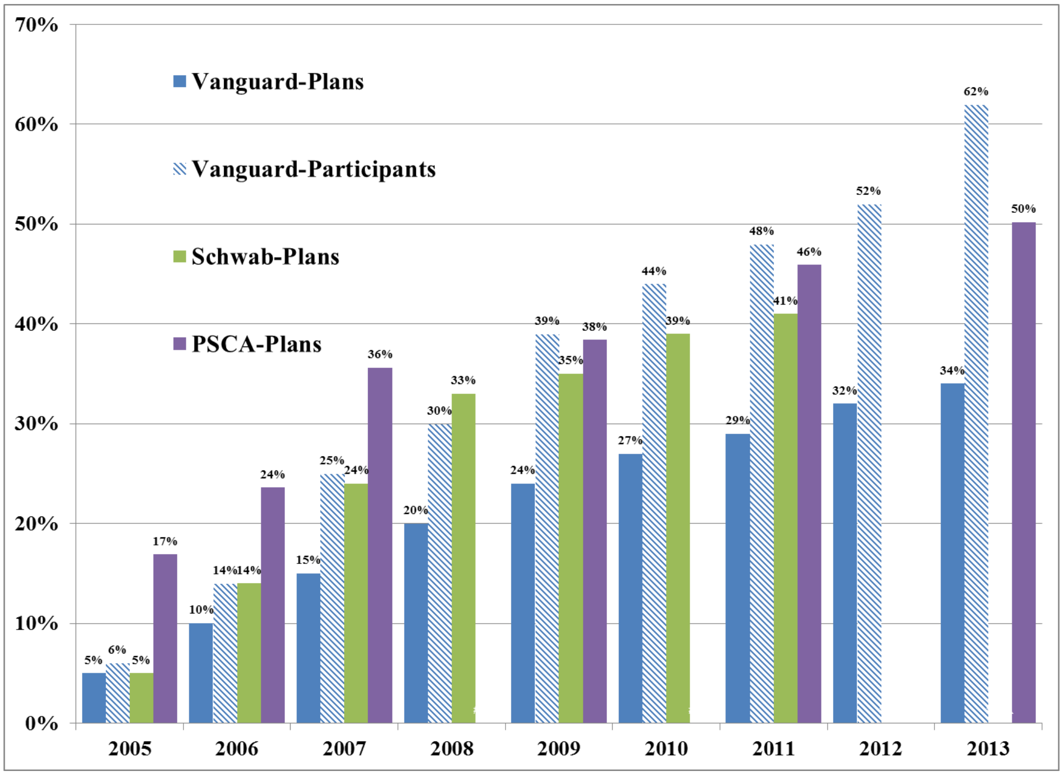
15 The estimated median household income in 2012 was $51,017 (DeNavas-Walt, Proctor, and Smith 2013, 6 Table 1).

16 The incentives cited included preemption of state laws that might inhibit the adoption of automatic enrollment and additional nondiscrimination safe harbor protections.

Figure 4: Growth in 401(k) Plans and Participants Using Opt out Enrollment

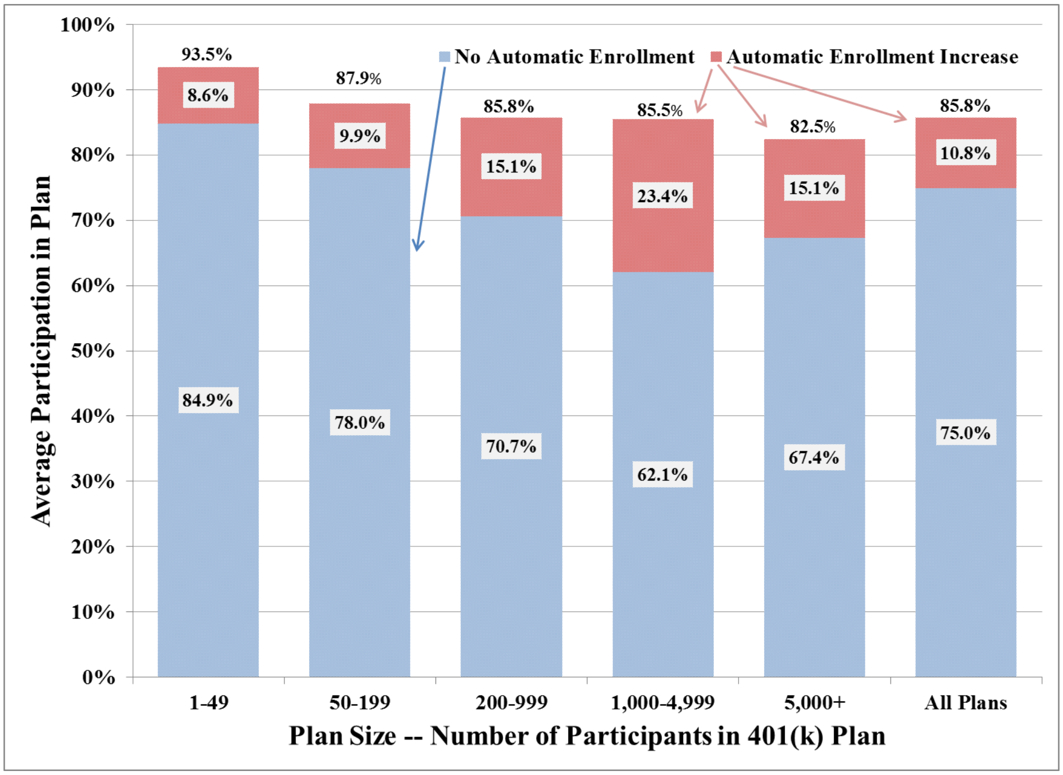


Sources: Plan Sponsor Council of America 2014, 66; PSCA 2012, 50; PSCA 2010, 56; and PSCA 2008, 40; Vanguard 2014, 19 for plans and 20 for participants; Society for Human Resource Management 2011 for Schwab figures.

Before passage of the PPA, the Plan Sponsor Council of America (PSCA) reported that 17 percent of surveyed 401(k) plans had opt-out enrollment features in 2005. The most recent PSCA survey reported that 50 percent of surveyed 401(k) plans had auto-enrollment in 2013. 401(k) plans administered by the Vanguard Group grew opt-out enrollment from 5 percent in 2005 to 34 percent in 2013. Because larger employers have adopted opt out at a higher rate than smaller employers, over 60 percent of employees in 401(k) plans with Vanguard had opt-out enrollment by 2013. The portion of Charles Schwab & Co. 401(k) plans with opt-out enrollment increased from 5 percent in 2005 to 41 percent in 2011. Clearly, the PPA encouraged substantial plan sponsor adoption of the opt-out enrollment feature. The goal of the group disability plan opt out is parallel—to increase the number of employers offering disability income protection on an opt-out basis.

The opt-out enrollment feature of 401(k) programs has also resulted in higher participation by employees whose employers have sponsored such programs. Figure 5 below shows that for retirement plans surveyed by the PSCA in 2013, the opt-out enrollment feature resulted in a 10 percent to over 20 percent increase in the number of employees participating in their firms' 401(k) programs. This increase in participation occurred across all plan sizes. As another set of data in 2013, employees with 401(k) plans handled by Vanguard exhibited an 82 percent participation rate under an opt-out enrollment program compared to a 65 percent participation rate when participation was not available under an opt-out enrollment situation. Across all demographic dimensions the Vanguard data showed higher employee 401(k) participation rates were associated with opt-out enrollment plans. In particular, 401(k) participation rates in opt-out enrollment programs were more than double those without opt-out enrollment for the lowest income, youngest, and lowest job tenure categories (Vanguard 2014, 25).

Figure 5: Additional 401(k) Participation from Opt out Enrollment by Plan Size



Source: Plan Sponsor Council of America 2014, 69.

This experience suggests that a 20 percentage point increase in the number of private sector employees covered by group disability (e.g., from the current 33 percent to 53 percent) is attainable. Group disability premiums are small fractions of meaningful 401(k) contributions—$250 to $400 per year (Council for Disability Awareness 2014b, 7) compared to the multiple thousands. Moreover, group disability income protection benefits are significant—estimated at $20 to $60 in expected economic welfare for each dollar of premium (Babbel et al. 2011, 1-4).

DISCUSSION

Several concerns regarding the feasibility of the proposal or the operations of group disability coverage have been raised.

The Difference in Covered Populations

SSDI currently covers more than three times as many private sector workers as group insurance. The population covered under private group disability and the population covered only by SSDI differ in their socioeconomic characteristics. Those currently with group disability coverage generally have higher wages and are more likely to work in service and professional industries (BLS 2014, private industry workers Table 16).

The difference between the group disability-covered population and the SSDI-only population, however, does not imply that extending group disability coverage to working Americans in the SSDI-only population is not feasible. Nor does this difference indicate that such expansion of private coverage would not benefit working Americans, employers, and the SSDI program. Though the SSDI and group disability-covered populations differ, group disability coverage has been present to some degree in all worker categories covered by SSDI, and private insurers have experience representing all segments of the working population (BLS 2014, private industry workers Table 16). The current difference in populations is a function of employer and employee choices regarding group disability coverage. The opt-out proposal would facilitate the expansion of the group disability-covered population, thereby extending the economic benefits of group disability coverage to government significantly.

Are Group Disability Beneficiaries Inappropriately Shifted to SSDI?

The practice of reducing group disability payments by the amount of a claimant's SSDI benefit has been cited as a motive for insurers to shift affected individuals to SSDI inappropriately. Benefit coordination of this type, however, has the advantage of keeping group disability coverage more affordable for employers and employees. One study showed that such coordination lowers the cost of group disability coverage by about 40 percent (Milliman 2005).

Group disability insurers generally do encourage and assist their claimants who suffer long-term disabilities to claim their rights under the SSDI program, and this increases the number of applications for SSDI to the extent that some applicants otherwise would not have applied. Insurers assist their claimants in the application process because most private disability claimants are, in fact, determined to be eligible for SSDI benefits. In recent years, 72 percent of long-term group disability beneficiaries, or about 470,000 individuals in 2013, also received SSDI benefit payments (Council for Disability Awareness 2014a, 3-4). The 470,000 individuals receiving both group disability and SSDI benefits in 2013 constituted 5.3 percent of the 8.9 million workers receiving SSDI payments in 2013 (SSA 2014, 17). By definition then, with the possible exception of SSA error, these disabled workers are appropriately on the SSDI rolls. Helping disabled individuals to access SSDI benefits in timely fashion also confers important additional benefits. These include additional income benefits for a spouse and/or dependents and eligibility for Medicare benefits after a period of 24 months.

Although a still significant proportion of group disability claimants do not become eligible for SSDI benefits, it is generally still in their best interest to apply. Only the SSA—not group disability insurers—can determine eligibility for SSDI benefits. Moreover, it is not possible to determine in advance of the SSDI process whether or not an individual will qualify for SSDI benefits. One key reason is that an individual's health and functional capacity change over time.

The assistance that group disability insurers provide in the application process reduces the administrative burden on the SSA by improving the quality and completeness of applications, shortening the time required for consideration, and often avoiding the latter steps of the application process. This is very much in keeping with the SSA goal of getting to the right benefit decision as quickly as possible.

Group disability insurers are not alone in encouraging people to apply for SSDI benefits. Public entities such as the Federal Employee Retirement System require disabled beneficiaries to file for SSDI benefits. Many states' workers' compensation systems, as well as public employee retirement systems, also require beneficiaries to apply for SSDI benefits.

There is scant evidence to support the contention that group disability insurers have inappropriately shifted individuals onto the SSDI program. Group disability coverage may accelerate SSDI benefit awards to some number of affected workers who would have eventually attained SSDI beneficiary status. This does not increase total SSDI benefits paid, since benefits are paid retroactively to the onset of disability regardless of when they are awarded. The cumulative effect of this number, however, is a fraction of the number of affected workers kept off, or minimizing their time on, SSDI rolls because of the financial support and return-to-work efforts by group disability insurers. The relatively small number of disability claimants who apply for—but are not awarded—SSDI benefits, combined with SSA's longstanding "open door" policy for applications, confirms that group disability insurers are not imposing undue costs on the SSA by encouraging and assisting claimants to apply for SSDI benefits.

The Effect on Employee Compensation

Basic economic theory teaches that the total compensation (wages, benefits, taxes, etc.) of workers is determined by the marginal revenue product of the employees working in the firm and total cost of employing the worker. This means that if, for example, taxes or the cost of benefits for workers increase without a change in the revenue product of the workforce from greater productivity, there will be a change in the composition of the total compensation of the employees—taxes or benefit costs will be a larger portion of total compensation with a smaller part going to the remainder.

An opt-out enrollment program for group disability plans would, in the aggregate, increase the amount of employee compensation going to this element. Holding all else constant, other parts of employee compensation would either be reduced or grow more slowly.

We know, however, that group disability premiums are relatively low, generally falling in the range of $225 to $400 per employee per year (GenRe 2014, 7 and Council for Disability Awareness 2014b, 7). In addition, research has demonstrated that employees receive large economic welfare benefits from disability insurance coverage—$20 to $60 for each dollar of premiums paid (Babbel et al. 2011). Employees' welfare in the situation where an adverse event occurs is vastly higher with private disability insurance than without it. Therefore, although automatic enrollment into group disability coverage might displace other aspects of compensation, the overall expected economic welfare of the worker is improved.

The Capacity of Private Sector Disability Insurers

If the proposal is successfully implemented, the number of workers covered by group disability programs could increase from the current one-third of private sector employees to possibly one-half or even more. This would be a significant increase in the number of sponsoring employers, covered employees, and beneficiary recipients. Could the industry cope with this substantial increase in demand?

There are two crucial inputs for expanding group disability insurer capacity—capital and personnel, particularly therapeutic and rehabilitation personnel. Current providers of disability insurance include a number of large, well known, and well regarded insurers: Aetna, AIG, Ameritas, Guardian, The

Hartford, Lincoln Financial Group, MassMutual, MetLife, Principal Financial, Prudential, Sun Life, UnitedHealthcare, and Unum to name a few (Council for Disability Awareness 2014a, 14). Given the ramp-up time involved in opt-out enrollment programs, as well as the current borrower-friendly interest rate environment, access to capital should not be a problem. Expanding the supply of personnel focused on return-to-work is more involved, but is also ultimately solvable. In that regard it is notable that the job growth for physical therapists, occupational therapists, athletic trainers and exercise physiologists, and occupational therapy assistants and aides, among others, are projected to either be "faster than average" or "much faster than average" by the Bureau of Labor Statistics through at least 2022 (BLS March 2015).

CONCLUSION

Group disability coverage provides working Americans and their families with crucial income security when disabling illness or injury strikes. Private income protection insurers also possess unique expertise and capacity to work with employees, employers and physicians to help disabled workers return to work when that is feasible, safe and timely. A significant byproduct of the assistance that group disability insurers provide takes the form of federal budget savings from the reduction of the burden on public programs that provide assistance to disabled Americans. One of the programs that benefits from savings arising out of private market coverage is SSDI. Our analysis has identified savings to the SSDI program, <u>from current levels of group disability coverage</u>, of $900 million annually, shortly to rise to $1 billion. SSDI program savings, and savings to other federal programs, would increase if more working Americans enjoyed private market coverage.

Approximately one-third of Americans working in private industry now have group disability coverage. The federal government could play an active and effective role in increasing this proportion by implementing policies to encourage more employers to adopt opt-out enrollment arrangements under employer-sponsored group disability plans. Specifically, we propose the enactment of legislation to make it clear to employers that opt-out enrollment is permissible under current law. This would address legal uncertainties that are holding employers back from putting in place opt-out enrollment within group disability plans and would send a strong signal of the importance of income protection coverage. Our nation's recent experience with the Pension Protection Act of 2006 shows that opt-out enrollment arrangements can have a significant positive impact in helping working Americans overcome inertia, distraction and procrastination to act in their long-term self-interest.

We further propose that the federal government undertake education and outreach to working Americans and their employers to empower them with information and resources regarding key disability income security issues. This education and outreach program, especially when combined with the group disability insurers' education and marketing efforts, could also help working Americans and employers understand and make decisions regarding disability income plans and opt-out arrangements.

Expanding the proportion of working Americans with disability income protection coverage would bring greater financial security to many more employees. It would also produce savings in the SSDI program through improved overall return-to-work outcomes, and would bolster the long-term financial stability of the Social Security Disability Insurance Trust Fund. Expanded private income protection would also increase the likelihood of labor force participation for employees facing work impairment, thereby improving the overall economy and increasing government revenue.

For each 10 percentage point increase in the proportion of workers with long-term group disability coverage (e.g., from the current 33 percent to 43 percent), we estimate that ultimately between 20,000 and 25,000 additional workers affected by a disabling condition would either avoid or spend less time on SSDI status. Those 20,000 to 25,000 workers would increase the savings that group disability brings to the SSDI program by between $280 million and $350 million per year, or between $2.8 billion and $3.5 billion over 10 years. If participation in group disability coverage by private sector employees increased to just over 50 percent, an attainable participation rate if the experience of 401(k) opt-out plans are a reasonable guide, the additional savings figures would double—to additional annual savings in excess of $500 million up to $700 million per year and additional ten-year cumulative savings of $5 billion to $7 billion. The federal government also benefits from group disability coverage even when a return-to-work is not achieved, since group disability income protection benefits keeps many households from dependence on other federal programs (e.g., TANF, SNAP, SSI, etc.).

These benefits to the SSDI program would come at minimal cost to the government, so the net savings to the federal government would be substantial. Finally, there is a clear benefit to adopting these proposals, even if other, more SSDI program-specific proposals are also implemented.

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