



AMERICAN BENEFITS  
COUNCIL

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**Testimony of Diann Howland  
On Behalf of the American Benefits Council  
Before the ERISA Advisory Council  
On Managing Disability Risks  
In An Environment of Individual Responsibility**

Thank you for allowing the American Benefits Council to testify on the important topic of disability risk and retirement security. I am Diann Howland, Vice President, Legislative Affairs. The Council is a trade association based in Washington, D.C. representing primarily Fortune 500 companies that either sponsor or administer health and retirement benefits covering more than 100 million Americans.

Employers, employees and taxpayers benefit when employees have disability income protection insurance. It provides income protection directly to the worker in a cost-effective manner. It can be accompanied by rehabilitation services that aid the worker in coming back to work. Disability insurance relieves pressure on the Social Security Disability program and other services that aid the disabled, and it helps the employer ensure the well-being and productivity of its workforce.

Hopefully workers will not ever need to use disability income protection insurance but all too frequently disability can and does occur. Disability might be brief, or it can be extended. Either way, a disability income protection policy

is a very valuable benefit and we hope to work with the EAC to find ways to increase awareness of disability income protection to further expand its role as a workplace benefit.

I would like to address three important issues relating to disability income protection programs offered through the workplace: (1) the relationship of disability insurance to retirement income; (2) the value of increased awareness of the risk of disability and the value of workplace disability protection; and (3) the potential undermining of such programs through credit insurance focused on 401(k) loans.

**Retirement income.** Disability insurance is related in important ways to income protection in retirement. Often times when an employee becomes disabled, retirement income accumulation ceases. You have heard testimony regarding disability insurance provided inside a retirement plan that can pay a disabled participant's contributions (or those of the participant and the employer, depending on the plan design). This insurance can be offered through the workplace, at low cost to the participant, and is a very useful option for individual workers. It is a valuable tool to help a worker who may become disabled protect against loss of retirement contributions during a period of disability. The American Benefits Council supports regulatory clarification that this type of insurance can be provided under a plan without adverse tax consequences.

**Awareness.** You have also heard from witnesses regarding the need to expand coverage in disability insurance, and that group disability insurance offered through the workplace is an effective means of accomplishing this objective. People are often not as sensitive as they could be to the risk of becoming disabled either temporarily or permanently. However, we believe the workplace currently plays and will continue to play a critical role in helping Americans understand

and meet their income protection needs in case of disability. Most individuals who have disability income protection insurance have obtained it through the workplace. About one third of workers have this insurance currently. The more support that government lends to encouraging employers to maintain these broad-based programs the more effective they will be.

In retrospect, disability insurance is always a prudent expenditure for an ill or injured worker. It is just too late after the fact. Given its value to the employee and its cost effectiveness, it only makes sense to make the public more aware of the value of the programs.

**401(k) loan insurance.** On the other hand, what individuals do not need, is credit insurance against disability and death on 401(k) loans. We are very supportive of broad disability insurance offered through the workplace but question the value of credit insurance on 401(k) plans loans relative to the cost.

Legislation is pending that would promote a product that would repay some 401(k) plan loans due to disability (and death) but it would require automatic enrollment of participants in a kind of credit insurance – unless they read the fine print and opt-out. As you know, the majority of 401(k) plan loans are repaid through payroll deduction. Defaults on 401(k) plan loans are generally due to job loss or job changes where the participant cannot make payments electronically (legislation has been introduced to help participants in this situation) – not due to death and disability. In addition to our concerns regarding the cost of credit insurance, we are concerned that it may confuse workers into thinking this insurance is really broader disability insurance.

This product could result in people having redundant insurance coverage if they do already have disability income protection, or could result in their not selecting

full disability insurance that would provide needed income maintenance and rehabilitation services.

We support broad group disability insurance. Obtaining disability insurance through the workplace is a low-cost, efficient means of securing this valuable coverage. I would be happy to answer any questions.