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United States General Accounting Office  
Washington, DC 20548

Health, Education, and  
Human Services Division

B-283718

November 5, 1999

The Honorable Robert E. Andrews  
Ranking Minority Member  
Subcommittee on Employer-Employee Relations  
Committee on Education and the Workforce  
House of Representatives

Subject: Private Disability Insurance: Employer-Sponsored Plans

Dear Mr. Andrews:

The Congress enacted the Employee Retirement Income Security Act (ERISA) a quarter of a century ago to protect the rights of employees in privately sponsored employee benefit plans, including disability and other welfare plans offered by employers.<sup>1</sup> Employers sponsor disability insurance plans to replace income lost by employees because of injuries and illnesses.<sup>2</sup> These plans can provide short-term or long-term disability coverage or both. The Pension and Welfare Benefits Administration (PWBA) of the Department of Labor is responsible for administering title I of ERISA, which includes, among other requirements, establishing minimum requirements for benefit claims procedures for employer-sponsored plans.

This letter responds to your request that we provide data on private sector employer-sponsored disability insurance plans. Specifically, you asked us to provide data on (1) the number of people in the private sector in the United States who are covered by short-term or long-term employer-sponsored disability insurance, (2) the number of short- and long-term disability claims filed each year and the number of initial awards, and (3) the average processing time for initial short- and long-term disability claims.

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<sup>1</sup>In addition to pension plans, ERISA covers welfare plans, which include plans providing medical, surgical, or hospital care, or benefits in the event of sickness, accident, disability, death, or unemployment.

<sup>2</sup>Employers who sponsor disability insurance plans either self-insure or use commercial insurers to provide coverage.

To conduct our work, we reviewed data from the Department of Labor's Bureau of Labor Statistics (BLS) and the Bureau of the Census. We also interviewed staff of PWBA, BLS, and the Social Security Administration as well as insurance and related industry representatives, including staff of the Health Insurance Association of America and the American Council of Life Insurance (ACLI). We did not verify the accuracy of the responses to questions about disability insurance coverage in BLS' Employee Benefits Survey, but the survey administrators used accepted procedures to ensure the reliability of the survey data. We also did not verify the accuracy of the data that the ACLI collected from private insurance companies about processing disability claims. We conducted our work during August, September, and October 1999 in accordance with generally accepted government auditing standards.

Data on the number of people in the United States covered by employer-provided private disability insurance come from BLS' Employee Benefits Survey. BLS data from 1996-97 show that of the approximately 100 million employees who work in the private sector, about 36 million are covered by employer-sponsored short-term disability insurance, and 26 million have long-term coverage (see table 1).<sup>3</sup>

**Table 1: Estimated Number of Employees in the Private Sector Covered by Employer-Sponsored Short- and Long-term Disability Insurance Plans, 1996-97**

Insurance type	Number of employees covered (in millions)	Percentage of employees covered
Short-term coverage <sup>a</sup>	35.9	36
Long-term coverage	25.9	26

Notes: Estimates include part- and full-time employees in small, medium, and large establishments. Small establishment data are for 1996, and medium and large establishment data are for 1997. The numbers in this table cannot be summed to calculate the total number of employees with disability insurance because some employees may have short-term coverage, long-term coverage, or both.

<sup>a</sup>Data on short-term coverage include state temporary disability insurance plans in New York, New Jersey, and Hawaii funded, at least in part, by employer contributions. Data exclude such plans in California and Rhode Island where benefits are wholly financed by employees.

Source: GAO calculations based upon data from BLS, News, June 15, 1998, and January 7, 1999.

<sup>3</sup>BLS data do not include agricultural employees. In addition, some defined benefit pension plans have disability provisions. Data on disability provisions of defined benefit pension plans are not included in the data reported on insurance plans.

Moreover, the percentages of employees covered in 1996-97 by short-term or long-term disability insurance changed little from the percentages of employees covered in 1990-91 (see table 2).

Table 2: Trend in Percentage of Employees in the Private Sector Covered by Employer-Sponsored Disability Insurance Plans From 1990-91 to 1996-97

Insurance type	1990-91	1992-93	1994-95	1996-97
Short-term coverage	31%	30%	35% <sup>a</sup>	36% <sup>a</sup>
Long-term coverage	25%	25%	25%	26%

<sup>a</sup>The 1994-95 and 1996-97 short-term coverage data reflect a change in the definition of short-term disability insurance. Beginning in 1995, the definition of short-term disability plans was expanded to include sick leave plans paid on a per-disability basis out of employer operating funds (unfunded plans). These plans had previously been categorized as sick leave.

Source: Data in the first three columns are from published BLS sources; data in the last column are from table 1.

In regard to the data on disability claims, none of the sources we reviewed or contacted could provide industrywide information on either the number or processing time of such claims. However, in a recent letter to PWBA, the ACLI reported some limited information that addresses your questions on long-term disability insurance claims.<sup>4</sup> In response to proposed regulations that would shorten time frames for claims processing, the ACLI conducted what it referred to as an informal survey of its members, who are leading writers of long-term disability insurance. An ACLI staff person told us that the ACLI sampled both large and small firms and that the response rate to the survey was 30 percent. However, the staff person also noted that the companies that responded represented about 45 percent of the long-term disability insurance market as measured by premium income of the disability insurance in force. The ACLI reported that 78 percent of the long-term disability claims received in 1998 were initially approved and 22 percent were denied at initial application. In addition, the ACLI reported that about half of the long-term disability claims received in 1998 were processed within 30 days and approximately 20 percent required more than 90 days to process.

<sup>4</sup>Letter dated October 22, 1999, from Ann L. Combs, Vice President and Chief Counsel, Retirement and Pension Issues, ACLI, Washington, D. C., to Robert J. Doyle, Director, Office of Regulations and Interpretations, PWBA, U.S. Department of Labor, Washington, D.C.

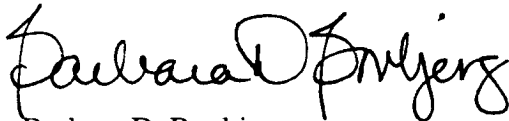
AGENCY COMMENTS

We sent a draft copy of this letter to the Department of Labor for review. PWBA had no comments, and we incorporated clarifying language suggested by BLS.

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If you or your staff have any questions about this correspondence, please contact me on (202) 512-7215 or Carol Dawn Petersen on (202) 512-7066. William Hutchinson also made key contributions to this assignment.

Sincerely yours,



Barbara D. Bovbjerg  
Associate Director  
Education, Workforce, and  
Income Security Issues

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