ASSURING ECONOMIC SECURITY FOR WORKERS: HEALTH, DISABILITY, AND LIFE INSURANCE BENEFITS

Statement of
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Mr. Chairman, I am pleased to submit this testimony on the importance of employee benefits to the economic security of workers and their families. The tax preferences accorded particular kinds of employee benefits--pensions, health insurance, disability insurance and life insurance--have been instrumental in achieving broad participation among workers and important economic security for workers and their families. This was the purpose for which Congress granted tax preferences for these benefits and legislated nondiscrimination rules for qualifying plans. Today, most workers participate in pension and insurance plans through their employers. They have come to consider these benefits, and their tax status, as part of the same social contract that assures their entitlement to Social Security benefits, unemployment insurance and workers compensation insurance.

This testimony describes the prevalence, distribution and importance of three different employee benefits: health, long-term disability, and life insurance. These benefits, together with employee pension plans, are the major elements of most employee benefit packages. Unlike pensions that provide for the future economic security of workers, however, health, disability, and life insurance provide current economic security for workers and their families. For most workers, these benefits are their only private insurance against the economic disruption of illness, permanent disability or death.

I. <u>Employer-Provided Health Benefits</u>

Most people who have private health insurance receive all or part of their coverage from an employer group health insurance plan. In 1982, employer plans provided health insurance coverage to 80 percent of the total population that reported private insurance coverage from any source. These people include workers and their families at all levels of earnings and income.

A. Coverage--Health insurance is the most common employee benefit provided to workers in the United States. In 1982, 84 million civilian nonagricultural workers reported coverage from an employer group health insurance plan. These workers represented nearly 78 percent of the nation's total civilian nonagricultural workforce (see Table 1).

Rates of employer group health insurance coverage are particularly high among workers who are employed full-time throughout the year, the largest sector of workforce. In 1982, more than 90 percent of full-time full-year workers were covered by an employer group health plan.[1]

Although most workers (60 percent) have coverage from their own employer plan, dependents' coverage is an important source of coverage for many, particularly for workers who are employed only part-time or during part of the year. In 1982, 29.4 million part-time or part-year workers were covered by employer group health plans. About half (44 percent) of these workers were covered as the dependents of other covered workers.

Dependents' coverage from employer health plans is also an important source of health insurance coverage among nonworkers, and particularly among children. In 1982, more than half of all nonworkers under the age of 65 (52

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[1] By comparison, 56 percent of all workers, and 70 percent of the ERISA workforce, participated in an employer pension plan in 1983. Employee Benefit Research Institute, "New Survey Findings on Pension Coverage and Benefit Entitlement," EBRI Issue Brief, No. 33 (Washington, D.C.: Employee Benefit Research Institute, August 1984).

Table 1

DISTRIBUTION OF WORKERS COVERED BY AN EMPLOYER GROUP HEALTH INSURANCE PLAN BY LEVEL OF WORKFORCE ACTIVITY, 1982[a]

Workforce Activity	Employer Coverage: Total	Employer Coverage: Direct Coverage[b]	Employer Coverage: Indirect Coverage[b]	No Employer Coverage
	(Persons in millions)			
All workers	83.7	65.3	18.4	24.2
Full-time workers	65.1	58.3	6.8	11.8
Full-year	49.4	46.1	3.3	5.3
Part-year	15.8	12.3	3.5	6.5
Part-time workers	13.6	4.1	9.5	8.1
Full-year	5.1	2.1	3.0	2.5
Part-year	8.5	1.9	6.5	5.6
Self-employed	5.0	2.9	2.1	4.3
	(Percents)			
All workers	77.6	60.5	17.1	22.5
Full-time workers	84.7	75.8	8.9	15.3
Full-year	90.4	84.3	6.1	9.6
Part-year	70.7	55.0	15.7	29.3
Part-time workers	62.3	18.8	43.8	37.4
Full-year	66.7	27.9	38.8	33.3
Part-year	60.3	13.8	46.5	39.7
Self-employed	53.6	30.8	22.8	46.4

SOURCE: EBRI tabulations of the March 1983 Current Population Survey (U.S. Department of Commerce, Bureau of the Census).
Note: Items may not add to totals because of rounding.

[a] Includes civilian nonagricultural workers, except those living in families in which the greatest earner is a member of the Armed Forces or an agricultural worker.

[b] Direct coverage is defined as coverage provided by the worker's own employer plan at any time during 1982; indirect coverage is coverage received as the dependent of another worker in 1982.

percent) were covered by an employer group health insurance plan (see Table 2). Most of these people (77 percent of covered nonworkers) were children under age 18; the rest were nonworking adults, including a small number of retirees under age 65.

High rates of worker participation in employer group health plans is encouraged by both the tax code and the way that group health insurance is priced. Employer contributions to health insurance have been statutorily exempt from individual income and Social Security taxation since 1954. These exemptions have encouraged worker demand for employer-provided health insurance at all income levels. In addition, the Social Security tax exemption has provided a financial incentive for employers to offer health insurance benefits in lieu of wage compensation to workers who earn less than the Social Security ceiling on taxable wages. In 1983, nearly 95 percent of all workers earned less than the Social Security ceiling. The combination of these tax incentives for workers and employers has produced high rates of worker coverage at all income levels.

The pricing of employer group health insurance also encourages broad worker participation in employer plans. In general, the package of benefits that insurers are willing to underwrite for a small employee group is less generous (per premium dollar) than the benefit package available to members of a larger plan. By offering health benefits to all employees, employers who purchase insurance (either primary coverage or stop-loss coverage for a self-insured plan) may find that the incremental cost of providing health insurance is low relative to the value of improved coverage to all workers. To maximize employee participation in the plan, and to enhance the plan's cost-efficiency, employee contributions to the plan are generally kept low.

Table 2

DISTRIBUTION OF NONELDERLY PERSONS
COVERED BY EMPLOYER GROUP HEALTH INSURANCE PLANS,
BY WORKER STATUS, 1982[a]

Worker Status	Number of Persons with Coverage (in millions)	Percent of Persons with Coverage	Percent of All Persons with Coverage
All Persons[b]	130.8	67.5	100.0
Workers[c]	83.7	77.6	64.0
Nonworkers	47.1	54.9	36.0
Children	40.4	64.2	27.6
Others	11.0	37.7	8.4

SOURCE: EBRI tabulations of the March 1983 Current Population Survey (U.S. Department of Commerce, Bureau of the Census).

a Includes all civilians except those living in families in which the greatest earner is a member of the Armed Forces or an agricultural worker.

b Items may not add to totals because of rounding.

c Includes civilian nonagricultural wage and salary workers and self-employed workers.

B. Equity--Employer group health insurance coverage is possibly the most egalitarian employee benefit provided to workers in the United States. Employer health plans include the spectrum of workers at all levels of earnings; rates of coverage among all workers except those at the very lowest annual earnings level--generally with fragmented employment patterns--are high and roughly equal. Furthermore, the value of health insurance benefits shows little variation among workers.[2] As a result, employer-provided health insurance is a particularly valuable benefit for low- and middle-income workers: for these workers, employer contributions to coverage represent a proportionately larger real income supplement than they do for higher-income workers.

Most workers covered by an employer group health plan are low- and middle-income workers. In 1982, more than 80 percent of all workers covered by an employer group health insurance plan earned less than $30,000; and more than one-third earned less than $15,000 (see Table 3). Only 5 percent of all workers covered by an employer group health insurance plan in 1982 earned more than $40,000.

The common allegation that employer health insurance benefits primarily high-income workers is not supported by national population survey data. Rates of worker coverage by employer plans are high and stable at all levels of earnings above $15,000. Even though workers who earned less than $15,000 reported somewhat lower rates of employer coverage in 1982, however,

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[2] Employer contributions to health insurance, as reported in the 1977 National Medical Care Expenditures Survey, showed no significant variation by worker earnings. Gail R. Wilensky and Amy K. Taylor, "Tax Expenditures and Health Insurance: Limiting Employer-Paid Premiums," Public Health Reports (July/August, 1982), table 2.

Table 3

DISTRIBUTION OF WORKERS
COVERED BY AN EMPLOYER GROUP HEALTH INSURANCE PLAN
BY PERSONAL EARNINGS, 1982[a]

Personal Earnings	Workers with Employer Coverage[b] (in millions)	Percent of Workers within Earnings Group	Percent of All Workers with Employer Coverage
Loss	0.4	43.4	0.5
$ 1-$ 4,999	15.2	56.2	18.2
5,000- 7,499	6.6	65.9	7.9
7,500- 9,999	6.6	74.8	7.9
10,000- 14,999	15.8	85.1	18.9
15,000- 19,999	12.7	90.4	15.2
20,000- 24,999	9.6	92.8	11.4
25,000- 29,999	6.3	93.9	7.6
30,000- 34,999	3.9	93.3	4.6
35,000- 39,999	2.1	93.6	2.5
40,000- 49,999	2.1	91.7	2.5
50,000- 59,999	1.0	92.3	1.2
60,000- 74,999	0.6	89.4	0.7
75,000 or more	0.7	86.9	0.9
Total, All Workers[c]	83.7	77.6	100.0
Summary:			
Loss-$14,999	44.7	68.2	53.4
$15,000- 24,999	28.6	91.9	34.2
25,000- 39,999	6.0	93.4	7.2
40,000 or more	4.4	90.7	5.3

SOURCE: EBRI tabulations of the March 1983 Current Population Survey (U.S. Department of Commerce, Bureau of the Census).

a Includes nonagricultural civilian workers who reported employer group health insurance coverage at any time during 1982; excludes workers in families in which the greatest earner is a member of the Armed Forces or an agricultural worker.

b Includes coverage from the worker's own employer group plan or from the plan of another worker.

c Items may not add to totals because of rounding.

the number of workers in that earnings group is very large. As a result, more than half of all workers who were covered by an employer group health plan in 1982 earned less than $15,000.

The income distribution of all people covered by an employer group health insurance plan--covered workers and their dependents--mirrors the distribution of covered workers by earnings. Table 4 presents the family income distribution of all people covered by an employer group health insurance plan in 1982. More than half of these people lived in families with total family income less than $30,000; nearly three-quarters lived in families with income less than $40,000.

The income distribution of workers and their families who receive coverage from an employer group health plan is important for several reasons. First, since most people covered by an employer health plan are members of low- and middle-income families, employer-provided health benefits probably substantially raise rates of private health insurance coverage throughout the nonelderly population. Research conducted by the Employee Benefit Research Institute (EBRI) and others indicates that income is an important determinant of individual health insurance purchase among people without access to coverage from an employer; if employers did not provide health coverage, most low-income workers would not purchase private health insurance.[3] Economic research has consistently found that the lack of health insurance poses a significant barrier to health care access among low- and middle-income

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3 Deborah J. Chollet, <u>Employer-Provided Health Benefits: Coverage, Provisions, and Policy Issues</u> (Washington, D.C.: Employee Benefit Research Instititute, 1984), p. 94. An EBRI simulation of private health insurance suggests that 56-87 percent of all covered workers with 1979 family income less than $15,000 would not have purchased private health insurance, if an employer had not offered and contributed to their health insurance plan.

Table 4

DISTRIBUTION OF PERSONS
COVERED BY AN EMPLOYER GROUP HEALTH INSURANCE PLAN
BY FAMILY INCOME, 1982[a]

Family Income	Persons with Employer Coverage (in millions)	Percent of Persons within Income Group	Percent of All Persons with Employer Coverage
Loss	0.1	5.5	0.1
$ 1-$ 4,999	1.3	9.2	1.0
5,000- 7,499	2.1	21.2	1.6
7,500- 9,999	3.4	36.4	2.6
10,000- 14,999	12.2	56.2	9.3
15,000- 19,999	14.8	68.2	11.3
20,000- 24,999	17.8	78.2	13.6
25,000- 29,999	17.3	83.9	13.2
30,000- 34,999	15.0	86.3	11.4
35,000- 39,999	11.8	86.9	9.1
40,000- 49,999	15.9	87.0	12.2
50,000- 59,999	8.3	87.1	6.3
60,000- 74,999	5.7	86.2	4.4
75,000 or more	5.2	84.6	4.0
Total, All Persons[b]	130.8	67.5	100.0
Summary:			
Loss-$14,999	19.1	33.4	14.6
$15,000- 29,999	49.8	76.7	38.1
30,000- 39,999	26.8	86.6	20.5
40,000 or more	35.1	86.5	26.8

SOURCE: EBRI tabulations of the March 1983 Current Population Survey (U.S. Department of Commerce, Bureau of the Census).

a Includes civilians who reported employer group health insurance coverage at any time during 1982, except civilians living in families in which the greatest earner is a member of the Armed forces or an agricultural worker.

b Items may not add to totals because of rounding.

families.[4]

Second, the income distribution of people with employer coverage suggests that a tax on employer contributions to health insurance would, in effect, target low and middle-income workers who constitute more than 80 percent of all workers covered by an employer group plan.

Because employer contributions to health insurance are not significantly related to income, taxing employer contributions to health insurance would also be regressive. That is, the additional tax payment of low-income workers relative to their income would be much higher than the additional tax payment of high-income workers. EBRI tabulations of data produced by the Congressional Budget Office (CBO) indicate that a tax cap on employer health insurance contributions would be regressive at every income level; as a percent of income, people with the lowest incomes would pay more than six times the amount of additional tax paid by people with income above $50,000.[5]

C. Efficiency of Tax Preferences: What are the Alternatives?-- Proposals to revise or eliminate tax preferences for employer group health insurance have come from several quarters. The Administration has proposed a cap on the tax exemption of employer contributions to health insurance, both to raise revenue and to discourage generous health insurance benefits in employer plans. The most recent Advisory Council on Social Security also advocated a tax cap, suggesting that Congress earmark part of the general

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4 See, for example, Alan C. Monheit, Michael M. Hagan, Marc L. Berk, and Gail R. Wilensky, "Health Insurance for the Unemployed: Is Federal Legislation Needed?", Health Affairs 3:1 (Spring 1984), pp. 101-111.
5 Deborah J. Chollet, Employer-Provided Health Benefits, p. 100.

revenue from the new tax to Medicare's Hospital Insurance trust fund. Those who have proposed comprehensive tax reform (for example, the Bradley-Gephardt bill) suggest that all employer contributions to health insurance be fully taxed as employee earnings.

These proposals raise several issues. They would potentially enhance federal revenues by broadening the tax base. The prospect of worsening federal tax regressivity among middle-income workers, however, is a major argument against including employer health insurance contributions in taxable income. There is, however, an additional issue to consider: whether current tax preferences, given their public cost in foregone tax revenues, is a better system for ensuring wide access to health care than alternative systems might be.

Proposals to establish a national health insurance plan have been introduced in virtually every session of Congress during the last fifteen years. These proposals have differed in the populations they sought to serve, the kinds of health care expenses they would cover, and their method of financing health care. Last year, the Congress considered legislation that would provide basic health insurance for people who lose employer coverage as a result of unemployment. All of these proposals failed in Congress because their projected public cost was prohibitive. Even so, most proposals for a national health insurance plan--including both major proposals to provide health insurance to the unemployed--rely on employer health insurance plans as the primary providers of health insurance.

The level of tax expenditures associated with the tax exemption of employer contributions to health insurance (estimated at $17.6 billion in

1984)[6] may be a very low price to pay for a system of health insurance that serves more than 60 percent of the population. Federal spending for Medicare, by comparison, is estimated at $62.2 billion dollars in 1984; 1984 federal-state spending for Medicaid is estimated at another $37.8 billion.[7] Together, these public programs finance health care services for only about 18 percent of the population.

The central position of employer-provided plans in our system of health insurance is illustrated by the low rates of alternative health insurance coverage--private or public--reported by the nonelderly population without coverage from an employer plan. Only 26 percent of all people living in families of civilian nonagricultural workers without employer group coverage reported coverage from another private health insurance plan in 1982 (see Table 5). Another 29 percent reported public program eligibility, predominantly for Medicaid. Nearly half (48 percent) of all people living in worker families without employer coverage reported no health insurance coverage from any source during the year. These people--totalling 30 million in 1982--are the largest segment of the uninsured in the United States.[8]

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6 Budget of the U.S. Government, Fiscal Year 1985, Special Analysis G.
7 Figure includes estimated total 1984 Medicare HI trust fund disbursements and 75 percent of estimated 1984 SMI trust fund disbursements reported in: U.S. Department of Health and Human Services, Health Care Financing Administration, Bureau of Data Management and Strategy, "Summary of the 1983 Annual Reports of the Medicare Board of Trustees, Health Care Financing Review 5:2 (Winter 1983), pp. 3 and 8. Unpublished Medicaid spending estimates were provided by the U.S. Department of Health and Human Services, Health Care Financing Administration.
8 Estimates of noncoverage among the civilian nonelderly population generally range between 14 and 16 percent. Members of civilian nonagricultural worker families without private health insurance coverage or public program eligibility accounted for more than four-fifths of all people without health insurance coverage in 1982.

Table 5

DISTRIBUTION OF PERSONS WITH PRIVATE HEALTH INSURANCE
OR PUBLIC PROGRAM ELIGIBILITY
BY EMPLOYER HEALTH INSURANCE COVERAGE, 1982[a]

	Persons with Employer Coverage		Persons without Employer Coverage	
Other Source of Coverage	Number of Persons (millions)	Percent of All Persons with Employer Coverage	Number of Persons (millions)	Percent of All Persons without Employer Coverage
All Persons	130.8	100.0	62.9	100.0
Other Private Coverage	7.8	5.9	16.1	25.6
Any Public Coverage	5.3	4.1	18.3	29.1
Medicaid	1.9	1.5	13.6	21.6
Medicare	0.4	0.3	2.4	3.8
CHAMPUS[b]	3.1	2.4	3.3	4.9
No coverage, any source	--	--	30.3	48.2

SOURCE: EBRI tabulations of the March 1983 Current Population Survey (U.S. Department of Commerce, Bureau of the Census).

a Includes all people under age 65 living in families of civilian nonagricultural workers in 1982.

b The Civilian Health and Medical Plan of the Uniformed Services.

D. Summary and Concluding Remarks--Employer group health insurance plans are the basis of most private health insurance in the United States. In 1982, 80 percent of all people with private health insurance coverage were covered by an employer plan; half of all people without coverage from an employer plan are uninsured from any source. These people living in worker families without employer coverage represent most of the uninsured population in the United States.

Most of the workers who are covered by an employer health insurance plan are low- and middle-income workers. In 1982, more than half of all workers with employer health insurance coverage earned less than $15,000; 88 percent of all covered workers earned less than $25,000. This distribution of covered workers by earnings is mirrored in the distribution of all people covered by an employer plan by family income. More than half of all people--workers and their dependents--covered by an employer plan in 1982 reported family income less than $30,000. The primary alternative source of coverage among workers and their dependents without employer coverage was Medicaid.

The tax exemption of employer contributions to health insurance are currently being reevaluated as a potential source of new federal revenues. The tax revenues to be gained, however, may be small compared to the potential costs of jeopardizing a system of private insurance that protects more than 130 million workers and dependents. Econometric estimates of private health insurance purchase among workers and their dependents suggest that significant numbers of people now covered by an employer plan would not purchase private health insurance if it was not offered--and largely paid for--by an employer.

Further, potential revenues from the taxation of employer health insurance contributions must be compared to potential increases in public insurance program spending--particularly by Medicaid. In 1982, 86 percent of nonworkers covered by employer plans were dependent children under age 18. In all states, recipients of AFDC benefits[9] are categorically eligible for Medicaid; furthermore, in some states, dependent children in any low-income family are categorically eligible for Medicaid.[10] The loss of employer coverage among low-income workers, therefore, could impose significant costs on state Medicaid programs. Potential increases in existing public program costs, and the potential for significantly higher rates of noncoverage in worker families, are important considerations in the debate over reducing tax preferences for employer contributions to health insurance.

II. Employer-Provided Disability and Life Insurance Benefits

Employer group disability and life insurance plans provide income replacement for workers and their dependents in the event of the worker's total disability or death. Although no population survey data exist to document the prevalence and distribution of life and disability insurance benefits among workers, published data from a national survey of medium-size and large establishments suggest that life and disability insurance benefits are about as widely held among workers as health insurance. The data presented in the following sections are drawn from the Level of Benefits (LOB)

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9 Aid to Families with Dependent Children (AFDC) is a state-based, federal matching program that provides income assistance for low-income families with dependent children. Eligibility criteria are established by the states within broad federal guidelines.

10 In 1982, 20 states provided Medicaid coverage for all financially eligible persons under age 18. Deborah J. Chollet, Employer-Provided Health Benefits, pp. 22-24.

Survey of full-time employees in medium-size and large establishments. This survey is conducted annually by the Department of Labor, Bureau of Labor Statistics, and reflects plan participation as of January 1 of the survey year.

A. Long-Term Disability Insurance--The purpose of long term-disability insurance is to provide earnings replacement for workers who become permanently and totally disabled. Long-term disability coverage can be provided through an insurance policy, or through the worker's pension plan. In 1982, about 43 percent of full-time workers in medium-size and large establishments participated in an employer group disability plan; 49 percent participated in a pension plan that would provide immediate retirement benefits if the worker became disabled (see Table 6). In total, about 92 percent of all full-time workers have disability coverage provided by an insurance or pension plan.

Since the earnings replacement is the goal of disability insurance coverage, the contribution amounts (from either the employer or employee) and the amount of plan benefits vary by employee earnings. In 1982, two-thirds of full-time employees with disability insurance plans contributed to the plan; employee contributions for disability insurance, however, are low--usually less than one percent of employee earnings. Private pension plans are seldom contributory.

Long-term disability insurance plans usually integrate Social Security, workers' compensation, or other disability-related public program payments. That is, the plan subtracts the amount of these payments from the insurance benefit paid to the disabled worker. The integration of public program benefits in private disability plans has two effects. First, the integration of DI and other public disability transfers serves to rationalize

Table 6

PERCENT OF FULL-TIME EMPLOYEES PARTICIPATING
IN EMPLOYER HEALTH, LONG-TERM DISABILITY, AND LIFE INSURANCE PLANS,
MEDIUM-SIZE AND LARGE ESTABLISHMENTS, 1982[a]

Employee Benefit Plan	Participants as a Percent of All Full-Time Employees
Health Insurance for Employee[b]	97
Noncontributory[c]	71
Health Insurance for Dependents[b]	93
Noncontributory	44
Long-Term Disability Insurance	43
Noncontributory	33
Retirement pension with immediate disability retirement provision	49
Noncontributory	d
Life Insurance	96
Noncontributory	82

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Employee Benefits in Medium and Large Firms, 1982, Bulletin 2176 (August 1983), pp. 6 and 16.

a Participation is defined as coverage by a time off, insurance, or pension plan to which the employer contributes. Employees subject to a minimum service requirement before they are eligible for a benefit are counted as participants even if they have not met the requirement at the time of the survey. In contributory plans, only employees who elect and contribute to coverage are counted as participants. Benefits to which the employer does not contribute are outside the scope of the survey. Only current employees are counted as participants; retirees who participate in the benefit program are excluded.

b The employee or dependents may be covered by a working spouse's plan instead of, or in addition to, participation in the surveyed employer plan.

c All coverage in the benefit program is provided at no cost to the employee. Supplemental life insurance plans, not tabulated here, may be contributory.

d Published tabulation not available.

a public system of independent disability assistance programs. Integration assures a basic, uniform level of earnings replacement for all workers.

Secondly, integration avoids "excessive" cumulative earnings replacement from independent public programs. In general, public-program benefits (DI, workers' compensation, and a variety of other cash and noncash disability assistance programs) are tax-exempt. The accumulation of these benefits can equal or even exceeds predisability, after-tax earnings, providing a strong incentive for the disabled to remain outside the workforce. The integration of public program benefits in employer disability plans mitigates the potential work disincentives associated with overlapping disability assistance.

Social Security DI is an income-redistributive program. The rate of earnings replacement in the DI program is substantially higher for workers at lower earnings levels than for those with greater earnings.[11] Because DI replacement rates, in particular, are inversely related to income, the integration of public program benefits probably also raises the relative value of employer-provided disability insurance coverage to higher-wage workers.

In 1982, two-thirds of all workers who participated in a employer disability insurance plan were guaranteed long-term disability benefits, after integration, of 50 to 60 percent of pre-disability earnings, subject to

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11 Social Security replacement rates vary inversely with the individuals covered wages. For an average-age disabled person with lifetime covered earnings at the minimum wage, 1984 Social Security Disability Insurance payments would replace 62 percent of predisability earnings. With lifetime covered earnings at the average wage, earnings replacement is 43 percent. With lifetime covered earnings at the Social Security ceiling ($37,800 in 1984), earnings replacement is only 24 percent.

maximum payment limits or ceilings on disability income.[12]

B. Employer-Provided Life Insurance--Nearly all full-time employees in medium-sized and large establishments participate in an employer-sponsored basic life insurance plan. Like disability insurance, basic life insurance benefits are generally intended to provide income to replace lost earnings. The amount of basic coverage provided by employer plans, therefore, is usually a multiple of the worker's earnings. In 1982, about two-thirds of plan participants in medium-sized and large establishments belonged to plans that paid 100 percent or 200 percent of the deceased worker's annual earnings. One third of plan participants belonged to plans that paid a flat dollar amount, usually between $2,000 and $15,000.

In addition to providing death benefits for worker's families, some basic life insurance plans provide a form of disability insurance by continuing coverage or paying immediate benefits to workers who become disabled. Life insurance plans may pay disability benefits in two ways. First, some plans provide a lump-sum or periodic distribution of the policy's face value to workers who become disabled. Second, some plans pay the face value, or a multiple of the face value, of the policy for accidental death or dismemberment; in cases of accidental dismemberment, disability is presumed. In 1982, nearly all full-time workers (99 percent) who participated in a

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[12] Private pension plans do not integrate Social Security benefits as commonly as long-term disability insurance plans. In 1982, only 45 percent of all private pension participants in medium-size and large establishments belonged to plans that integrated or offset Social Security benefits. In general, white-collar employees (professional-administrative and technical-clerical workers) are more than twice as likely to have an integrated pension plan as are blue-collar (production) workers. Published data do not indicate whether pension plans that provide for immediate disability retirement are more likely to integrate Social Security and other public program benefits.

employer group life insurance plan were entitled to extended coverage or distribution of the policy's face value if they became disabled. Nearly three-quarters (72 percent) had coverage that provided accidental death or dismemberment benefits.

Lacking population survey data, the importance of employer-provided coverage as a source of life insurance coverage for workers and their families is difficult to evaluate. Certainly, the wide participation by full-time workers in medium-size and large employer plans suggests that these plans are a major source of life insurance coverage among workers. Furthermore, although employer-provided basic life insurance is not intended to provide adequate life insurance coverage for most workers, only a small proportion of employees in medium-size and large establishments elect supplemental group life insurance coverage--even when the employer contributes. Low participation rates in supplemental plans by full-time workers suggests that many employees may have no private life insurance coverage outside of the basic plan paid by the employer.

C. Efficiency of Tax Preferences: What Are the Alternatives?--Employer contributions to disability and life insurance, like health insurance contributions, are favored by the tax code. Unlike health insurance, however, disability and life insurance benefits are not fully tax-exempt. Workers pay no individual income tax on the value of employer contributions to disability insurance or to life insurance less than $50,000.[13] Individual income taxes are paid, however, on benefits actually received from a disability plan, including disability retirement, at the time of receipt. In general,

[13] Employer contributions to life insurance in excess of $50,000 are fully taxable as current income to the employee.

distributions from life insurance plans are exempt from individual income taxation. Neither employer contributions to disability and life insurance (under $50,000), nor the benefits ultimately paid by these plans, are taxable by Social Security.

The level of foregone federal revenues, or tax expenditures, associated with the exemption of employer contributions to accident and disability insurance is estimated at $120 million in 1984. Tax expenditures associated with the exemption of employer contributions to group term life are higher: $2.2 billion in 1984.[14]

For most workers and their families, public disability assistance and survivors' benefits are the most important alternative to employer-provided disability and life insurance plans. Several public-sector programs provide income security benefits comparable to private disability and life insurance. Social Security Disability Insurance (DI) is the largest public-sector program that pays benefits to permanently and totally disabled workers. Because entitlement for DI benefits, however, depends on the worker having a sufficient work history in covered employment, many workers are not currently insured by the DI program. In 1983, only about 62 percent of all workers were insured by Social Security for disability benefits. Estimated 1983 benefit disbursements from the DI trust fund were $17.9 billion.

State workers' compensation programs are also an important source of disability insurance coverage for most workers: coverage by workers' compensation plans is nearly universal. However, these plans pay benefits only for work-related disability. These apparent gaps in public insurance

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[14] Budget of the U.S. Government, Fiscal Year 1985, Special Analysis G.

program coverage suggest that employer-provided disability and life insurance plans are the primary source of disability and life insurance coverage for large numbers of workers.

Despite coverage by employer disability plans, Social Security, workers' compensation and other disability-related public plans, however, most people who report being severely disabled--that is, unable to work at all or regularly because of a chronic health condition or impairment--report no income from any private or public disability plan. The 1978 Disability Survey conducted by the Social Security Administration found that only 42 percent of the 10.7 million persons who reported severe disability also reported receipt of public or private disability benefits.[15] More careful investigation of this apparent gap in income security for the disabled may be a starting point for reevaluating the adequacy and effectiveness tax incentives for employer-provided plans, and the efficiency of employer plans as an alternative to public disability assistance.

The Social Security Old Age and Survivors Insurance (OASI) is the most prominant public-program alternative to employer-provided life insurance. In 1983, about 55 percent of all workers were insured (either permanently or currently) by OASI. Survivors' benefit payments from the OASI trust fund in 1982 totaled nearly $34 billion.

The level of Social Security expenditures for disability and survivors' benefits, given the share of all workers currently insured for these benefits, offers a rough idea of the potential public cost that might be associated with an essentially public system of disability and life

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[15] Congress of the United States, Congressional Budget Office, Disability Compensation: Current Issues and Options for Change (June 1982), p. 18.

insurance. It is likely that the additional cost of such a system would be far greater than the level of tax expenditures associated with current tax preferences for employer-provided plans. Whether a revision of tax preferences for these plans would jeopardize private insurance coverage, however, is again an important question. In terms of potential coverage loss, the arguments against revising or eliminating tax preferences for employer-provided disability and life insurance plans may be weaker than the arguments against taxing employer-provided health insurance benefits. At the same time, the estimates of federal revenue loss associated with tax preferences for employer-provided disability and life insurance benefits are substantially smaller.

Like employer-provided health insurance, basic life insurance benefits appear to be evenly distributed among workers--particularly among full-time permanent employees of larger establishments. When the immediate disability retirement provisions of pension plans are included as a source of long-term disability coverage for workers, employer-provided disability insurance is probably also quite evenly distributed among workers. As a result, taxing employer contributions to these benefits (including employer contributions to pension plans) as employee earnings would probably target the low- and middle-income workers who constitute most of the working population.

Unlike employer contributions to health insurance, however, employer contributions to disability insurance, pensions, and basic group life insurance are usually calculated on the basis of employee earnings. Since employer contributions vary directly with earnings, taxation of these contributions is likely to be less regressive than taxation of employer health insurance contributions. A less regressive tax burden, in turn, suggests that coverage loss among low-income workers might be low relative to the loss of health insurance coverage anticipated from full or increased taxation of employer contributions to health insurance. Nevertheless, employer-provided disability and life insurance--including disability coverage provided by employer pension plans--are an important supplement to the insurance offered by public disability and survivors' insurance programs. Existing research has not investigated the potential coverage loss that might result from reducing or eliminating tax preferences for employer disability and life insurance contributions, or the implications of private coverage loss for the economic security of workers.

Summary--Employer-provided disability and life insurance benefits are common components of employee benefit plans. Although fewer than half of all full-time permanent workers in medium-size and large establishments are covered by an employer-provided disability insurance plan, about 49 percent participate in a pension plan that provides immediate disability retirement benefits. Together, disability insurance and pension plans provide long-term disability coverage for abouit 92 percent of full-time permanent workers in medium-size and large establishments. Similarly, nearly all full-time permanent workers (96 percent) in these establishments participate in an employer-provided basic group life insurance plan.

Nearly all disability insurance plans integrate disability income from Social Security, workers' compensation insurance, or other public disability asssistance programs. Integration of public-program benefits rationalizes total disability income, assuirng more uniform levels of earnings replacement among workers and mitigating the work disincentives associated with very high earnings replacement. Because earnings replacement by Social

Security, in particular, is greater for low-wage workers, however, integration probably also raises the relative value of employer-provided disability insurance for high-wage workers.

Like disability insurance, the goal of basic group life insurance plans is earnings replacement. Plan benefits are usually calculated as a multiple of the worker's earnings. As a result, the value of employer contributions to group life insurance is higher for employees at higher earnings levels.

The earnings replacement goals of employer-provided disability and life insurance plans might make the argument against revising their tax treatment somewhat weaker than the argument against reducing tax preferences for employer-provided health insurance. At the same time, the potential federal revenue gains are substantially smaller. Because the value of disability and life insurance benefits--and the level of employer contributions--varies with employee earnings, taxing employer contributions to group disability and life insurance plans is potentially less regressive than taxing employer contributions to health insurance. In turn, the loss of disability and life insurance coverage among low-income workers is potentially lower.

An important caveat is in order, however. No research exists that documents (1) the distribution of employer-provided disability insurance (including pension coverage that provides immediate disability retirement) or basic life insurance among all workers, or (2) the importance of employer-provided plans relative to other private and public sources of insurance coverage. Circumstantial evidence suggests that employer-provided disability and life insurance plans may be a critical source of income security for most workers. As the basis of our private system of income security for workers, employer-based disability insurance, pensions and basic life insurance are probably worth preserving. Maintaining effective tax incentives for employers to provide these benefits to workers at all earnings levels may be the most efficient means of assuring a successful private alternative to public assistance.