

## *DISABILITY INCOME INSURANCE*

### Penetrating the Small-Employer Market

In small private firms, fewer than one-quarter of workers have short-term disability coverage (22%), and just 13 percent have long-term disability income insurance, according to the Bureau of Labor Statistics.\*

By contrast, half of workers at large employers (100 or more employees) have short-term disability income insurance (47%), and more than one-third have long-term disability coverage (40%).

This study examines why small employers choose to offer disability coverage to their employees, why others decide against it, and what changes might lead the latter to offer the insurance.

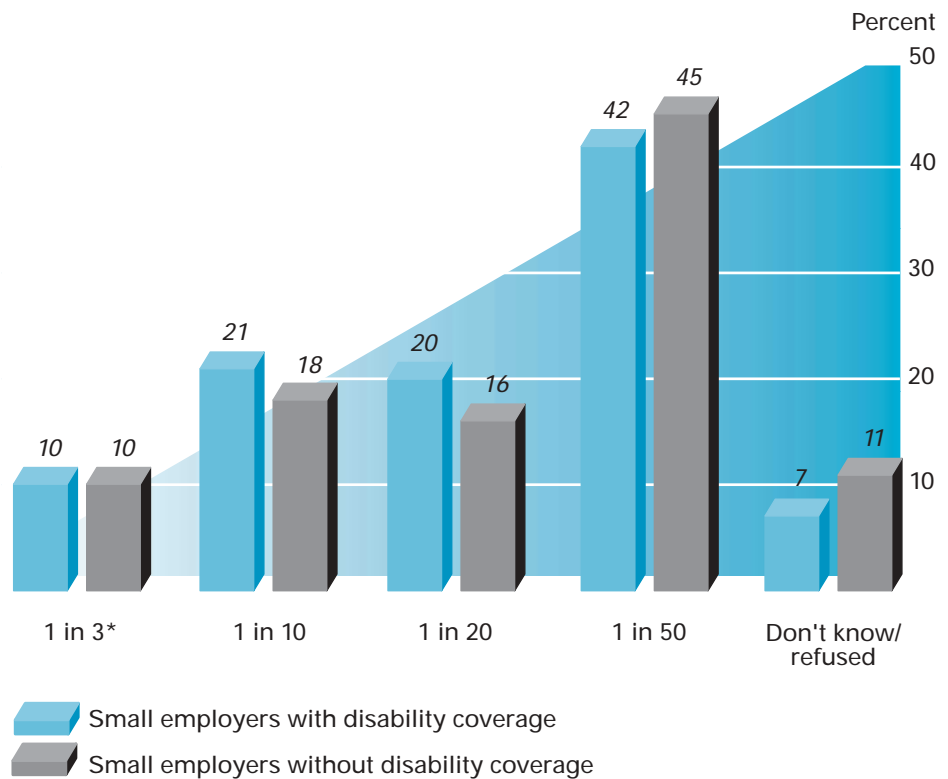
In March 2002, the American Council of Life Insurers (ACLI) surveyed 481 small employers—a random, representative sample of 266 employers that offer disability income insurance to their employees and 215 employers that do not offer such coverage. Small employers are defined as businesses with five to 100 full-time employees.

\*U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Private Industry, 2000*

## Characteristics of Survey Participants

Small employers are greatly misinformed about the likelihood of a worker suffering a serious disability between ages 35 and 65, Figure 1 shows. Only 10 percent of employers surveyed knew the actual likelihood, which is 1 in 3.\* Nearly half of the respondents significantly underestimated the risk of suffering a disability, reporting a 1 in 50 chance.

FIGURE 1 Likelihood of Worker Age 35–65 Suffering Serious Disability

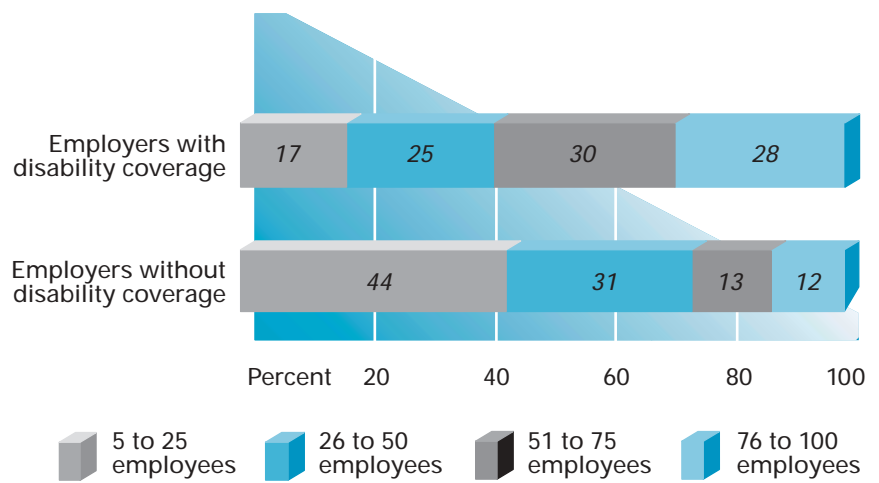


Source: American Council of Life Insurers  
\*Correct answer

\*American Council of Life Insurers, *2001 Life Insurers Fact Book*.

Employers offering disability coverage tend to be larger than businesses not offering such insurance, based on full-time employment (Figure 2).

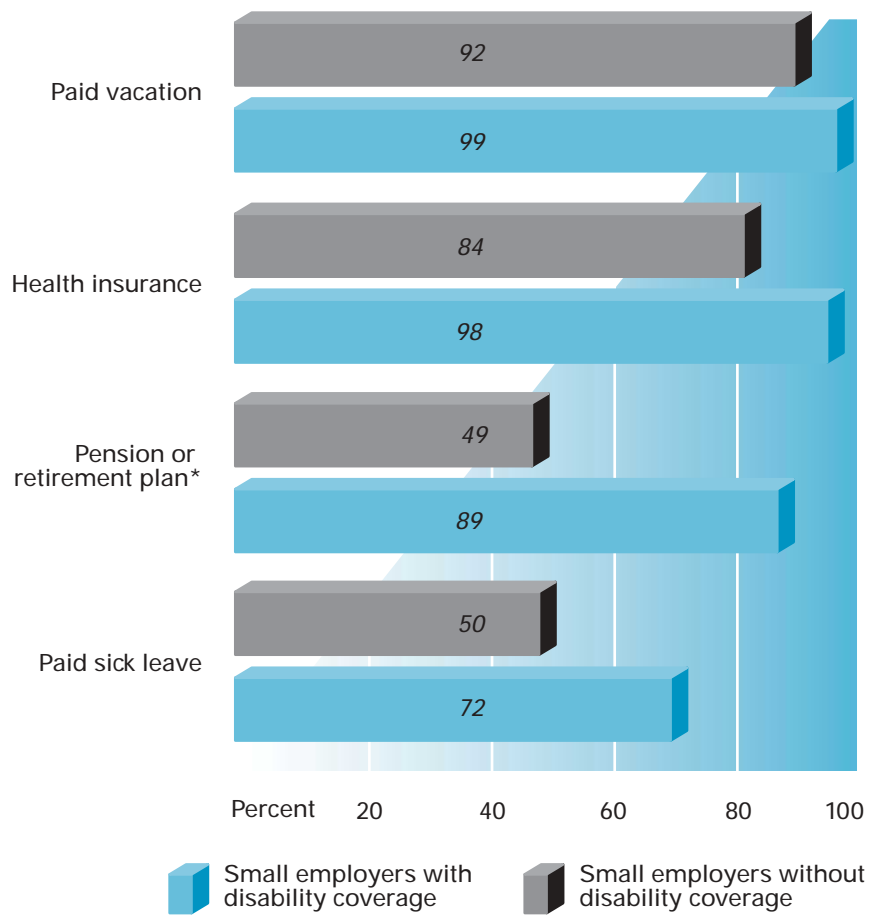
FIGURE 2 Employer Size, by Full-Time Employment



Source: American Council of Life Insurers

Small employers offering disability coverage to their workers are more likely to provide other employee benefits as well—paid vacation, health insurance, a pension or retirement plan, and paid sick leave—compared to businesses not offering disability coverage (Figure 3).

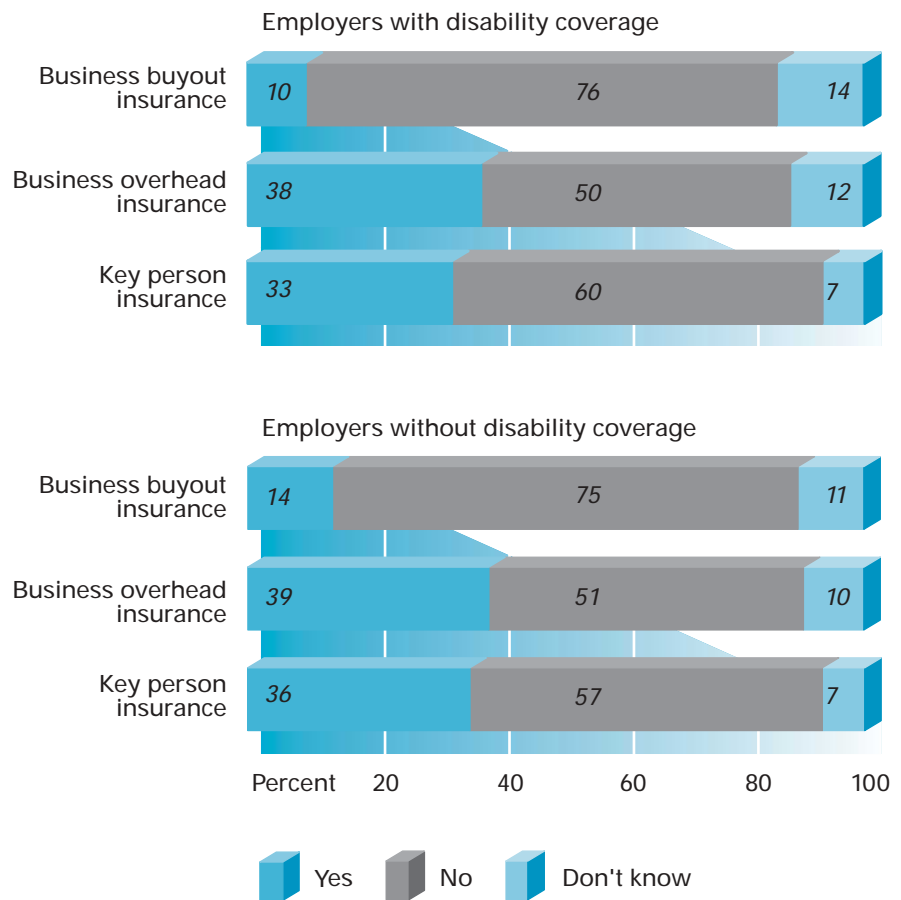
**FIGURE 3** Benefits Other Than Disability Coverage Provided by Small Employers



Source: American Council of Life Insurers  
 \*Includes 401(k)s.

Figure 4 shows that the use of insurance to protect against loss of business income is similar among all small employers whether or not disability coverage is offered.

**FIGURE 4** Income Protection Coverage at Small Employers

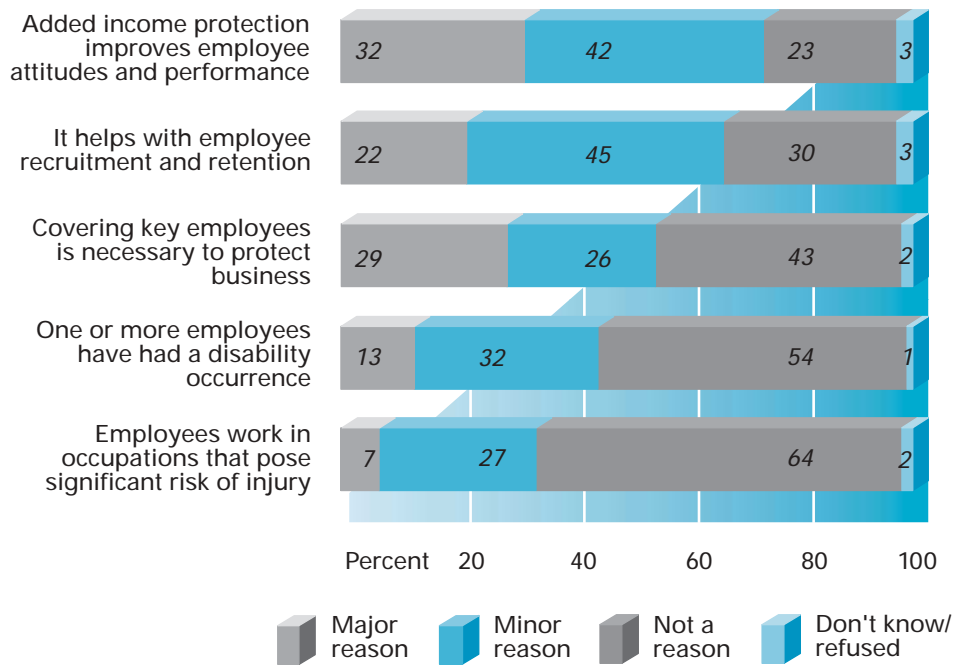


Source: American Council of Life Insurers

### Providing Disability Coverage

Most small employers said they chose to offer disability coverage to their workers for business reasons—primarily for covering key employees, recruiting and retaining productive employees, and improving employee attitudes and performance (Figure 5).

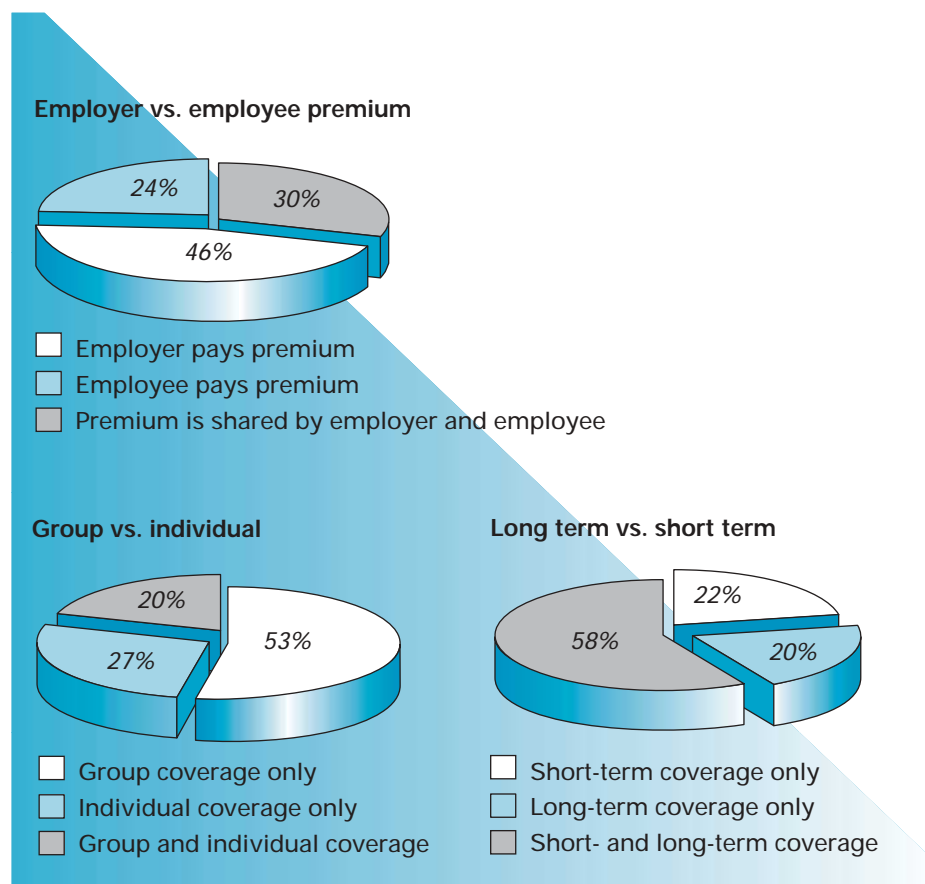
FIGURE 5 Why Small Employers Offer Disability Coverage



Source: American Council of Life Insurers

Figure 6 provides a closer look at the disability coverage offered by small employers: 58 percent offer both short- and long-term coverage, 53 percent provide group coverage only, and 46 percent of employers pay the full premium for disability coverage.

FIGURE 6 Features of Disability Coverage Offered by Small Employers

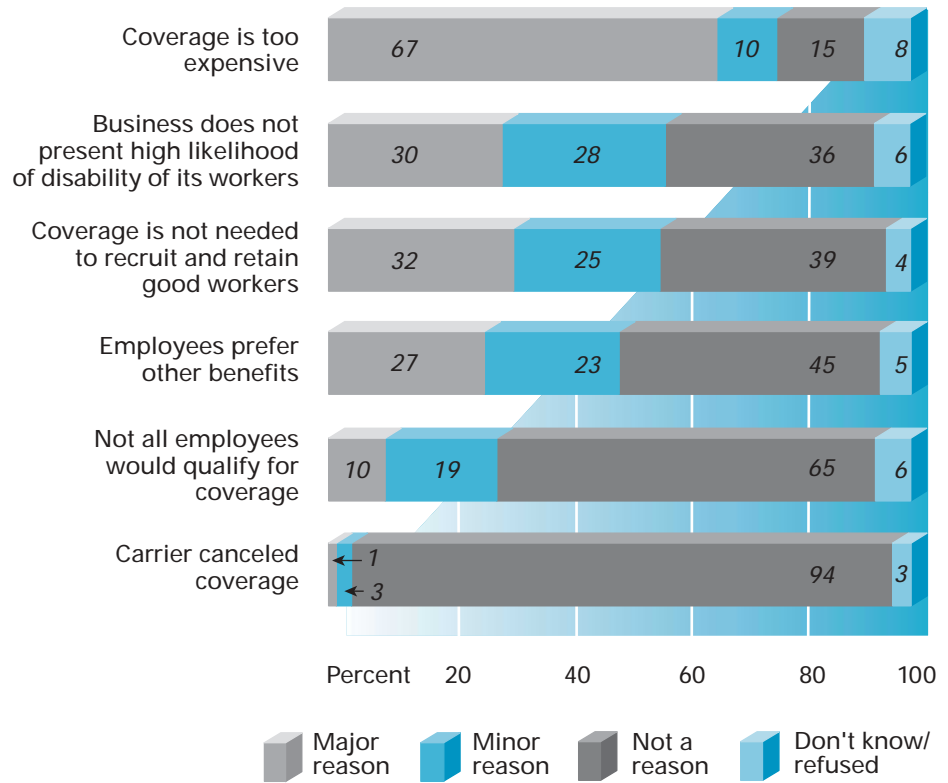


Source: American Council of Life Insurers

Absence of Disability Coverage

Small employers most often cite cost of coverage for not offering disability income insurance to their employees (Figure 7). Belief that the employer’s business presents a relatively low disability risk is also frequently cited for not offering coverage.

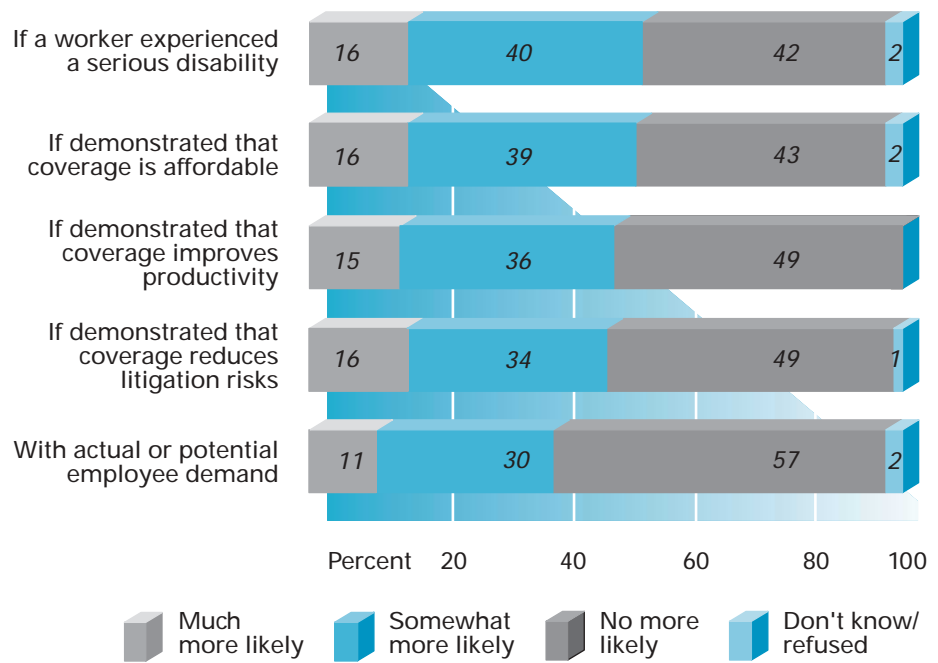
FIGURE 7 Why Small Employers Do Not Offer Disability Coverage



Source: American Council of Life Insurers

Just over half of small employers are at least somewhat more likely to consider offering disability coverage if it can be shown that the insurance is affordable (55%) or would benefit their business directly by improving productivity (51%), as shown in Figure 8.

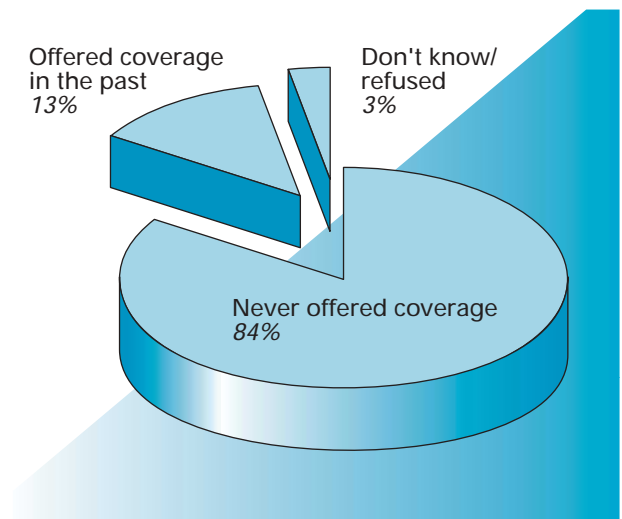
**FIGURE 8** Likelihood of Small Employers Offering Disability Coverage



Source: American Council of Life Insurers

An overwhelming majority of small employers not offering disability coverage (84%) have never offered it (Figure 9). Among the 13 percent that have provided coverage, employers' reasons for no longer offering the insurance include loss of employee interest, coverage was too costly, benefits package containing the coverage was dropped, lack of use, and carrier discontinued service.

FIGURE 9 Changes in Disability Coverage Among Small Employers Without Coverage



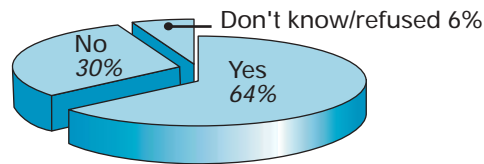
Source: American Council of Life Insurers

### Access to Information on Disability Risk

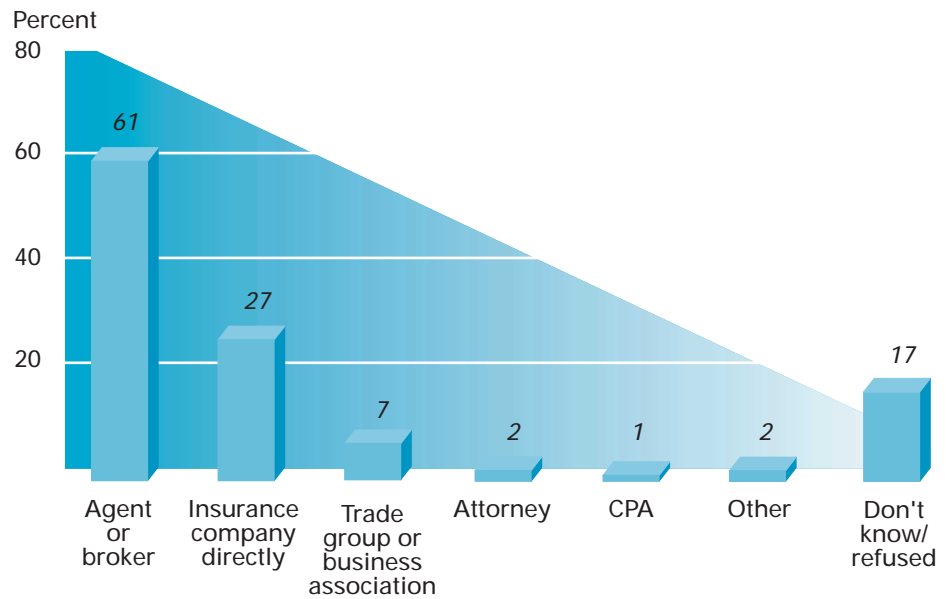
Two-thirds of small employers not offering disability coverage (64%) report having been contacted about purchasing such insurance (Figure 10). The majority were contacted by either an agent or broker, or by an insurance company directly.

**FIGURE 10** Contact With Small Employers Lacking Disability Coverage Regarding Purchase

Has your business ever been contacted by anyone regarding the purchase of disability income insurance?



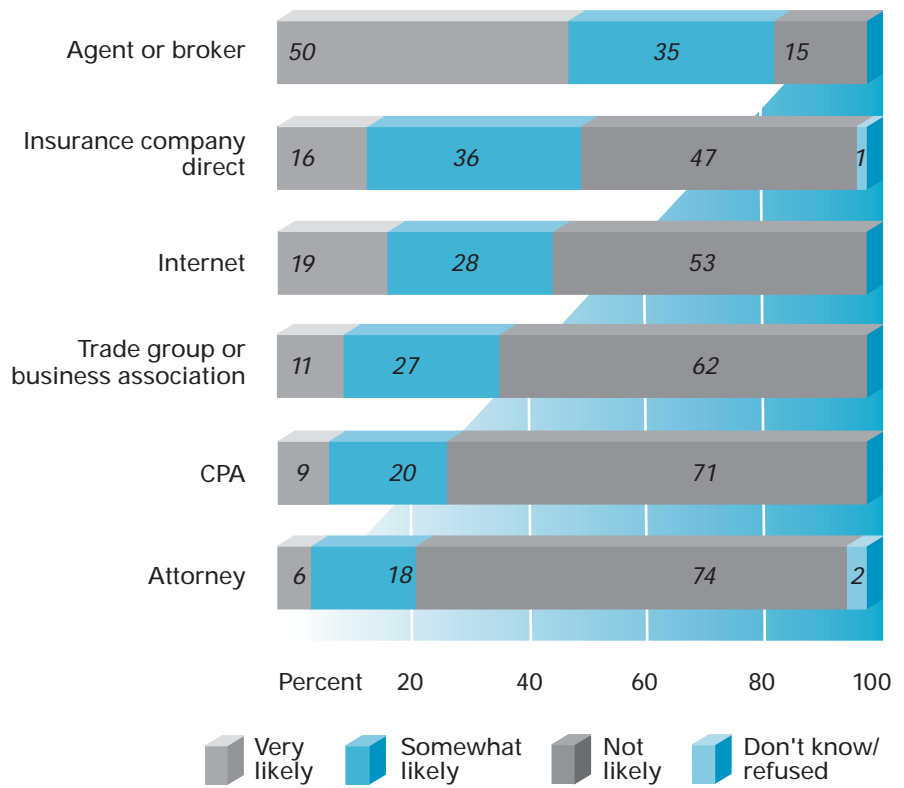
If yes, who contacted you?



Source: American Council of Life Insurers

Figure 11 shows that employers without disability coverage are most likely to go to an agent or broker, or to an insurance company directly, when seeking information about disability risk and disability income insurance.

**FIGURE 11 Preferred Sources of Disability Insurance Information Among Small Employers Without Coverage**



Source: American Council of Life Insurers

## Conclusion

The reasons that small employers cite for offering disability coverage to their workers—covering key employees, recruiting and retaining productive employees, and improving employee attitudes and performance—all indicate they expect disability income insurance to contribute to better business results in the long run.

By contrast, the main reasons cited for not offering disability coverage are its cost and the low risk of disability in the employer's line of business. Yet cost of coverage can be shared with employees, and disability coverage is not limited to work-related disabilities.

These findings suggest employer awareness of the features and benefits of disability income insurance could be improved. Providing straightforward information on the cost of disability coverage and its direct benefits to small businesses has strong potential to increase the availability of disability income insurance to employees.

This report is published by the American Council of Life Insurers (ACLI). ACLI is a Washington, D.C.-based trade association. Its member companies offer life insurance, annuities, pensions, long-term care insurance, disability income insurance, and other retirement and financial protection products.

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*Note:* This is a PDF version of *Disability Income Insurance: Penetrating the Small Business Market*. To reduce file size and eliminate blank pages, it is paginated differently from the printed version.