

## Disability insurance plans: trends in employee access and employer costs

By Kristen Monaco

Short- and long-term disability insurance programs replace some of the wages lost by people who cannot work because of a disabling injury or illness that is not work-related.<sup>1</sup> Short-term disability insurance typically covers periods lasting less than 6 months, and long-term disability insurance lasts for the length of the disability or until retirement.

Those workers who are unable to work due to injury or illness and who do not have disability insurance coverage through their employers may seek benefits from Social Security Disability Insurance (SSDI).<sup>2</sup> The number of SSDI claimants has grown over the past decade as younger workers and those in relatively low-skill, low-pay jobs have applied for benefits.<sup>3</sup> This has prompted interest in the amount of coverage for workers in employer-provided disability insurance programs. This issue of **Beyond the Numbers** examines trends in employer-provided disability insurance coverage over time, explains the basic terms of coverage for typical plans, and estimates the costs to private employers.<sup>4</sup>



### Access to benefits

The National Compensation Survey collects data on compensation, which includes wages and salaries and various benefits. Besides cost measures, the program collects data on access, participation, and features of benefits (called provisions), including short- and long-term disability insurance.

Historically, participation rates for long-term disability insurance have been lower than short-term, as shown in chart 1. In 1999, 36 percent of private industry workers took part in short-term disability insurance and 25 percent took part in long-term disability insurance. In 2014, these numbers were 39 percent and 33 percent, respectively.

Chart 1

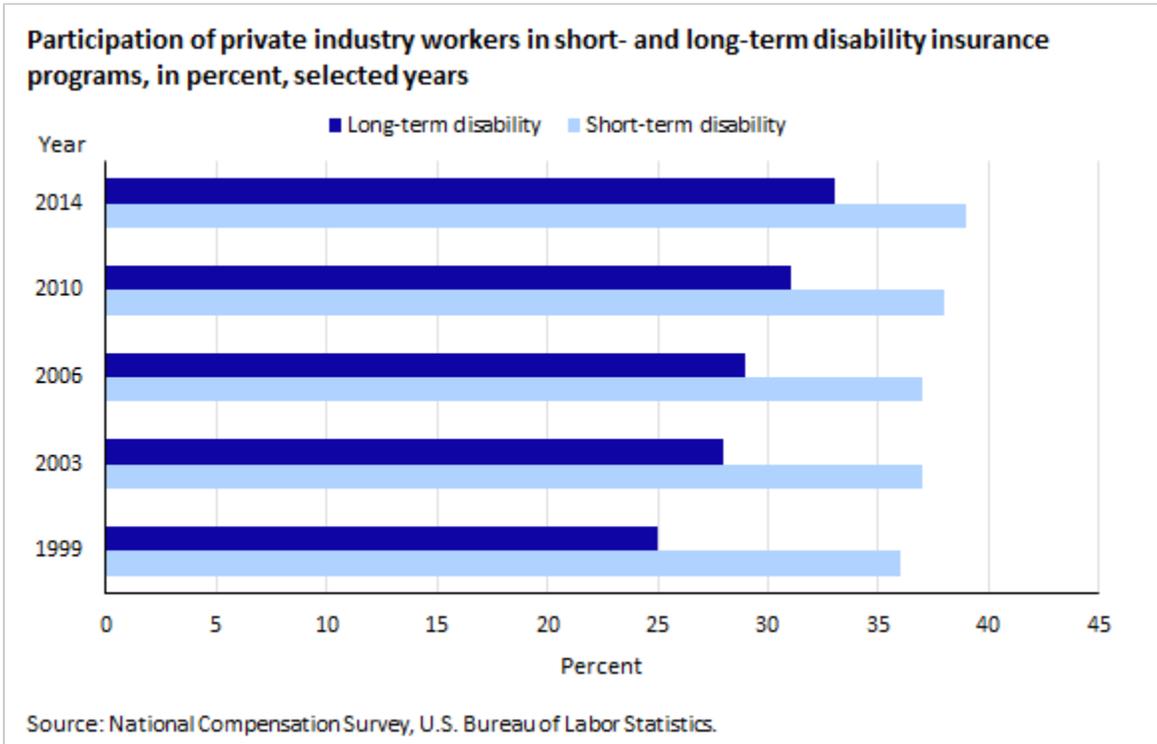


Table 1 shows access and participation by occupation group.<sup>5</sup> The 2014 estimates and patterns of access and participation did not change much from the 2007 and 2010 estimates.

Workers in service occupations (such as waiters/waitresses, hair stylists, and dental hygienists) have the lowest access rates for both short- and long-term disability insurance. Access to short-term disability ranges from 20 percent for service workers to 54 percent for workers in management, professional, and related occupations. Access rates for long-term disability ranges from 10 percent for service workers to 59 percent for management, professional, and related occupations. This analysis focuses on access because most of the workers with access to these plans participate in them. As seen in table 1, the access and participation rates typically differ by only one or two percentage points, which is because these plans are “free” to most employees.

**Table 1**

**Access to and participation in short- and long-term disability insurance, by occupation group, private industry workers, March 2014**

| Occupation group                                 | Short-term disability insurance |               | Long-term disability insurance |               |
|--|---------------------------------|---------------|--------------------------------|---------------|
|  | Access                          | Participation | Access                         | Participation |
| Management, professional, and related            | 54                              | 53            | 59                             | 57            |
| Service  | 20                              | 19            | 10                             | 10            |
| Sales and office                                 | 38                              | 37            | 34                             | 32            |
| Natural resources, construction, and maintenance | 40                              | 39            | 27                             | 26            |
| Production, transportation, and material moving  | 47                              | 46            | 31                             | 30            |

Source: National Compensation Survey, U.S. Bureau of Labor Statistics.

Table 2 presents the share of workers who have access to disability insurance plans, by occupational groups. Workers with access to any disability insurance tend to have access to both short-term plans and long-term plans. Service workers, however, are not likely to have access to either disability insurance plan (76 percent) and only 6 percent have access to both.

Table 2

Access to disability benefit combinations, by occupation group, private industry workers, March 2014

| Occupation group                                 | Percent with access to both short- and long-term disability insurance | Percent with access to only short-term disability insurance | Percent with access to only long-term disability insurance | Percent with no access to insurance |
|--|---|---|--|-------------------------------------|
| All workers                                      | 25  | 15  | 9  | 51                                  |
| Management, professional, and related            | 42  | 12  | 17   | 29                                  |
| Service  | 6   | 14  | 4  | 76                                  |
| Sales and office                                 | 25  | 13  | 9  | 53                                  |
| Natural resources, construction, and maintenance | 21  | 18  | 6  | 55                                  |
| Production, transportation, and material moving  | 25  | 22  | 7  | 47                                  |

Note: Costs calculated from Employer Cost for Employee Compensation (ECEC) published estimates.  
 Source: National Compensation Survey, U.S. Bureau of Labor Statistics.

### Costs to employees

Most workers do not make contributions to their short- or long-term disability insurance plans. Across all workers, only 18 percent are required to contribute to short-term disability insurance and 6 percent to long-term. The required employee contribution for short-term disability insurance is significantly higher for service workers than for other occupational groups, as seen in table 3.

Table 3

**Employee contribution requirement for short-term disability insurance, by occupation group, private industry workers, March 2014**

| Occupation group                                 | Short-term disability insurance |
|--|---------------------------------|
| Management, professional, and related            | 13                              |
| Service  | 42                              |
| Sales and office                                 | 18                              |
| Natural resources, construction, and maintenance | 16                              |
| Production, transportation, and material moving  | 15                              |

Source: National Compensation Survey, U.S. Bureau of Labor Statistics.

**Plan coverage**

Short-term disability plans are intended to replace lost wages for a short, fixed amount of time. Ninety-three percent of private industry workers are covered by a fixed-duration plan. The median length of coverage is 26 weeks. This is the same across occupational groups and has stayed mostly the same over time. The median salary replacement rate for short-term disability plans is 60 percent, a rate that has stayed roughly the same for many years.<sup>6</sup> Among workers covered by a short-term disability insurance plan, 75 percent have a plan with a maximum benefit amount; among those with maximum payout provisions in the plan, the median amount that a worker would be eligible to receive was \$584 in March 2014.

Long-term disability insurance plans also are typically a fixed percent of annual earnings. Among private industry workers covered by a long-term disability insurance plan, 95 percent had plans that cover a fixed percentage of annual earnings. The median amount covered by long-term plans is 60 percent of annual earnings. Most long-term plans (88 percent) have a maximum amount payable and the median maximum payout in 2014 was \$8,000 per month.

**Connection between disability insurance and medical insurance**

It is useful to examine the share of workers who have access to both disability insurance and medical care benefits. Illnesses and injuries that prompt a worker to claim short- or long-term disability insurance benefits through employer-provided plans may also involve medical care.

Rather than presenting data on all possible combinations of medical care and short- and long-term disability insurance, table 4 presents estimates of the two extremes: those who have access to all three through their employer and those who do not have access to insurance plans.

Table 4

Access to disability insurance and medical care, by occupation group, private industry workers, March 2014

| Occupation group                                 | Percent with access to short-term and long-term disability insurance and medical care | Percent without access to disability insurance and medical care |
|--|---|---|
| All workers                                      | 25  | 27  |
| Management, professional, and related            | 42  | 12  |
| Service  | 6   | 55  |
| Sales and office                                 | 25  | 26  |
| Natural resources, construction, and maintenance | 21  | 21  |
| Production, transportation, and material moving  | 24  | 20  |

Source: National Compensation Survey, U.S. Bureau of Labor Statistics.

Across all private sector workers, 25 percent have access to all three benefits through their employers and 27 percent have access to none. Those in management, professional, and related occupations have high rates of access—42 percent have access to all three plans and 12 percent do not have access to any. Among service workers, only 6 percent have access to all three benefits, and 55 percent do not have access to the plans.

### Costs to employers

How much does it cost employers to offer disability insurance to their workers? The Bureau of Labor Statistics estimates this cost on the basis of data from the Employer Cost for Employee Compensation (ECEC) published estimates.<sup>7</sup> We start by presenting the estimates of the average hourly cost of wages and salaries for March 2014 in table 5.<sup>8</sup> This will provide some perspective on the amount by which employer costs would increase as a result of expanding access to disability insurance.

**Table 5**

**Average hourly cost of wages and salaries, by occupation group, private industry workers, March 2014**

| Occupation group                                 | Cost    |
|--|---------|
| All workers                                      | \$20.96 |
| Management, professional, and related            | \$36.75 |
| Service  | \$10.67 |
| Sales and office                                 | \$16.47 |
| Natural resources, construction, and maintenance | \$22.24 |
| Production, transportation, and material moving  | \$17.20 |

Note: Costs calculated from Employer Cost for Employee Compensation (ECEC) published estimates.  
 Source: National Compensation Survey, U.S. Bureau of Labor Statistics.

Columns 2 and 5 of table 6 present the access rates for short- and long-term disability, respectively (these access rates are also presented in table 1). Columns 3 and 6 present the cost of the benefit from the ECEC and only include costs for those enrolled in the disability insurance programs. Across all private industry workers, the cost per hour for short-term disability insurance is \$0.06 and the cost per hour for long-term disability is \$0.05. Columns 4 and 7 contain estimates of the hourly cost if access to the insurance benefit were expanded to include all workers. This is calculated by dividing the ECEC cost by the access rate.

Table 6

**Estimated cost of access to short- and long-term disability insurance, by occupation group, private industry workers, March 2014**

| Occupation group                                 | Short-term disability insurance |                              |                                      | Long-term disability insurance |                              |                                      |
|--|---------------------------------|------------------------------|--------------------------------------|--------------------------------|------------------------------|--------------------------------------|
|  | Percent with Access             | Benefit cost per hour worked | Employer access cost per hour worked | Percent with Access            | Benefit cost per hour worked | Employer access cost per hour worked |
| All workers                                      | 40                              | \$0.06                       | \$0.15                               | 34                             | \$0.05                       | \$0.15                               |
| Management, professional, and related            | 54                              | \$0.10                       | \$0.19                               | 59                             | \$0.09                       | \$0.15                               |
| Service  | 20                              | —                            | —                                    | 10                             | —                            | —                                    |
| Sales and office                                 | 38                              | \$0.04                       | \$0.11                               | 34                             | \$0.03                       | \$0.09                               |
| Natural resources, construction, and maintenance | 40                              | \$0.09                       | \$0.23                               | 27                             | \$0.03                       | \$0.11                               |
| Production, transportation, and material moving  | 47                              | \$0.06                       | \$0.13                               | 31                             | \$0.06                       | \$0.19                               |

Note: Costs calculated from Employer Cost for Employee Compensation (ECEC) published estimates. Dash indicates data not available or applicable. Source: National Compensation Survey, U.S. Bureau of Labor Statistics.

As seen in table 6, the cost of access for short-term disability and long-term disability across all private industry workers is \$0.30 per hour worked (\$0.15 each). The estimate ranges from \$0.11 for sales and office workers to \$0.23 for natural resources, construction, and maintenance workers. There are no reliable estimates for service workers, which is not surprising given that few service workers have access to employer-provided disability insurance. As a whole, however, the cost of providing both short- and long-term disability insurance access to all private sector workers would be approximately 1.0 percent of total compensation cost (\$0.30/\$29.99). This would cost an employer \$624 each year for a full-time (2,080 hour) worker.

**Conclusion**

The lowest paid occupational group—service workers—is also the group least likely to be covered by employer-provided short- or long-term disability plans. Low paid workers are also the group most likely to apply for Social Security disability insurance (SSDI), which has led to financial problems for the program. It is important to note that expanding access to employer-provided disability insurance would not necessarily relieve the burden on SSDI. The ability to access disability insurance does not affect a worker’s eligibility for SSDI. People can receive SSDI benefits and long-term disability payments, but the private disability insurance payment is usually reduced by the amount of the SSDI payment. The mean SSDI payment was \$1,145 per month in October 2014.<sup>9</sup>

Increased access to employer-provided disability insurance programs would fill the gap in benefits for individuals who apply for SSDI. SSDI benefits are payable the 6th full month after the disability begins, but people usually do not receive benefits until several months later because of delays in applying and processing. Short- and long-term disability insurance provide income protection much faster.

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## NOTES

- <sup>1</sup> Workers' compensation covers loss of income due to work-related injuries and illnesses.
- <sup>2</sup> See David Autor, Mark Duggan, Jonathan Gruber, and Catherine Maclean, "How Does Access to Short-Term Disability Insurance Impact SSDI Claiming," NBER Disability Research Center Paper No. NB 13-09 (October 2013) for preliminary analysis of a negative relationship between private disability insurance and SSDI claims.
- <sup>3</sup> Till Von Wachter, Jae Song, and Joyce Manchester, "Trends in Employment and Earnings of Allowed and Rejected Applicants to the Social Security Disability Insurance Program," *American Economic Review* 101, No. 7 (December 2011), pp. 3308–3329.
- <sup>4</sup> This study excludes government employers as well as the self-employed, farm workers, and private household workers.
- <sup>5</sup> Access measures whether an employer makes a plan available to their employees. Participation measures whether the employee enrolls in such a plan (or fails to opt out of plans in which they are automatically enrolled). Estimates of access, participation, and provisions of disability insurance plans for March 2014 can be found in the BLS publication, "National Compensation Survey: Employee Benefits in the United States, March 2014," available at <http://www.bls.gov/ncs/ebs/>.
- <sup>6</sup> Hilery Simpson, "Short-term Disability Benefits," *Compensation and Working Conditions* (U.S. Bureau of Labor Statistics, Summer 1997); James N. Houff and William J. Wiatrowski, "Analyzing Short-term Disability Benefits," *Monthly Labor Review* (U.S. Bureau of Labor Statistics, June 1989).
- <sup>7</sup> The ECEC provides estimates of the average hourly cost of wages and salaries as well as various benefits, including disability insurance. The ECEC estimates of hourly costs are calculated for all workers, not just those receiving the benefit. We can, however, use the benefit access rate and the average cost to get an estimate of how much it would cost the employer to provide benefit access to all workers.

For more detailed information on this approach for measuring total cost of access, see Thomas Moehrle, Thomas, John L. Bishow, and Anthony J. Barkume, "Benefit Cost Concepts and the Limitations of ECEC Measurement," *Compensation and Working Conditions*, July 26, 2012; and Jason L. Ford, "The New Health Participation and Access Data from the National Compensation Survey," *Compensation and Working Conditions*, October 26, 2009.

<sup>8</sup> We also use March 2014 data to obtain the average cost per hour for short- and long-term disability insurance programs. Table 6 combines this information with the access rate to obtain an estimate of the employer's cost of providing access to this benefit.

<sup>9</sup> "Monthly Statistical Snapshot, November 2014" (Social Security Administration, 2014), [http://www.ssa.gov/policy/docs/quickfacts/stat\\_snapshot/](http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/).

## SUGGESTED CITATION

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