

## *Protection Against Income Loss During the First 6 Months of Illness or Injury\**

This note examines and describes the kinds of income protection that are available to workers during the first 6 months of illness or injury; it also provides estimates of benefits paid and estimates of earnings lost due to lack of coverage. In 1991, wage and salary workers and the self-employed lost a total of about \$69.6 billion in earnings due to short-term illness or injury (table 1). Of this amount, about \$46.5 billion—or two-thirds—was replaced through income protection payments to workers in public and private sector jobs.

### *Overview*

The purpose of short-term disability protection is to assure a continuous income for workers who are unable to work because of temporary illness or injury. Such short-term benefits are meant to replace lost earnings until the person is able to resume work. If the illness or injury requires a long-term absence from work, the income serves as a bridge between employment and long-term disability benefits. The waiting period for short-term sickness insurance benefits (though not sick leave) is typically 1 week, whereas the waiting period for long-term disability benefits under Social Security's Disability Insurance (DI) program is 5 months. Maternity benefits are usually included under temporary disability insurance plans.

If a sickness or injury occurs outside the workplace and is not job-related, it is referred to as a nonoccupational illness. The three programs that protect workers against this kind of income loss are:

(1) temporary disability insurance (TDI) programs in certain States, (2) paid sick leave, and (3) employment-related group insurance. Individual insurance can provide similar protection, but it is purchased individually from private insurance companies and is not an employment-related program.

Another class of income protection is provided by workers' compensation programs, which cover job-related injuries or occupational illnesses. These statutory State programs are available in all States. In addition, General Assistance is available in some or all local jurisdictions within 36 States, and serves as a safety net providing cash assistance to needy persons who do not qualify for federally funded assistance. General Assistance is financed entirely by States and/or local governments. Table 2 provides a summary of benefits paid under the programs discussed in this note and additionally summarizes information contained in tables 3–6. Table 2 also includes benefits received for the 6th month of disability under Social Security Disability Insurance.

### *Short-Term Income Protection for Nonoccupational Illness*

The Social Security Administration (SSA) has had a long-standing interest in knowing the amount of income lost by workers who become sick or temporarily disabled. SSA developed and maintained a data series covering the 1948–83 period, which estimated and tracked income losses, as well as benefits that were paid out by income-replacement programs.<sup>1</sup> This note extends the series, with certain modifications, taking advantage of data from three employee-benefit surveys that are now conducted annually by the Bureau of Labor Statistics (BLS), Department of Labor.<sup>2</sup>

### *Temporary Disability Insurance*

TDI programs operate under statutory provisions in California, Hawaii, New Jersey, New York, Rhode Island, and Puerto Rico. Also, all railroad workers are covered under the Railroad Unemployment Insurance Act. Most of the State programs were established during the 1940's as an outgrowth of the unemployment insurance (UI) program. Unlike UI, which is a joint Federal-State program, TDI is exclusively a State program with no Federal legislation, except in the case of the railroad industry. SSA collects annual information from each of the TDI jurisdictions and publishes the results in Table 9.C1 in the *Annual Statistical Supplement to the Social Security Bulletin*. In 1991, about 21.3 million workers, or 22 percent of the national private sector workforce, were covered by TDI (table 3).

TDI programs are financed with special funds. In California and Rhode Island, workers contribute the entire amount required to finance these State programs. In New York, Hawaii, New Jersey, and Puerto Rico, the programs are financed jointly by employee and employer contributions. The Railroad Retirement program is financed by a tax on employers. To qualify for benefits, workers generally must be unable to perform their regular or customary work because of a physical or mental condition. Claimants may be disqualified if they receive certain types of disability-related income, including workers' compensation and unemployment insurance, and, sometimes, sick leave and job-related pensions. Claimants must also have a specified amount of past employment or earnings to qualify for benefits.

In 1991, approximately 320,000 persons received TDI benefits amounting to \$3.7 billion, providing an average weekly benefit of about \$182. The average dura-

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tion of benefits was about 11 weeks, although it varied from State to State. Benefits from publicly operated funds in California, New Jersey, Rhode Island, Puerto Rico, the New York State Insurance Fund (a competitive State carrier), special funds for the disabled unemployed in Hawaii and New York, and the railroad program amounted to \$2.8 billion or three-fourths of total benefits paid in 1991 under the TDI programs. Programs funded by the private sector accounted for the other 25 percent (\$0.9 billion) of total benefits paid (table 3).

### ***Paid Sick Leave***

Paid sick leave is a major source of protection against earnings loss due to short-term illness or injury. It is often a full-replacement benefit that requires no unreimbursed waiting period. The aggregate value for this benefit is comparatively high, estimated to be \$24.6 billion in 1991. Of this amount, sick leave for workers in private industry accounted for \$12.1 billion, while the considerably smaller number of government employees received \$12.5 billion in sick leave benefits. Table 4 shows the number of workers covered and benefits paid in 1991 in the private sector. Table 5 presents data on paid sick leave, by type of employment, from 1988 through 1991.

The BLS surveys show that during 1990–91, 56 percent of all workers in the United States had sick leave available to them. Of that percentage of all workers, 50 percent of all employees in the private sector had sick leave, compared with 90 percent of employees in the public sector.<sup>3</sup> Within the private sector, about 62 percent of employees in medium and large firms were covered by sick leave, and 40 percent in small private establishments. Also within the private sector, paid sick leave is offered to 77 percent of professional and technical employees, 59 percent of clerical and sales employees, and 33 percent of employees in production and service.

Sick leave and related coverage of workers in the private sector is as follows:<sup>4</sup>

- 24 percent have sick leave and short-term disability insurance (12 percent are insured under TDI

laws and 11 percent have other group sickness insurance);

- 26 percent have sick leave only;
- 20 percent have short-term disability insurance only (10 percent are covered under TDI laws and 10 percent have other group sickness insurance);
- 30 percent have neither sick leave nor short-term disability insurance.

In summary, 70 percent of the private sector workforce is covered by some

kind of income protection, either sick leave or disability insurance, while 30 percent lacks protection.<sup>5</sup> Also, 44 percent of workers in the private sector are covered by some type of short-term disability insurance. As expected, sick leave is more prevalent for public sector jobs than for jobs in private industry. Fifty-seven percent of full-time workers in the private sector are covered by sick leave, while only 17 percent of part-time workers in that sector are covered.<sup>6</sup> Sick leave benefits are more generous in large firms than in small firms. Also benefits are

Table 1.—Estimated total income loss due to injury or illness, by type of employment, 1988–91

Type of employment	[In millions]			
	1988	1989	1990	1991
Wage and salary workers.....	\$60,187	\$63,862	\$67,740	\$69,590
Private sector <sup>1</sup> .....	41,447	43,817	46,334	47,177
Covered by TDI.....	11,605	12,269	12,974	13,210
Not covered by TDI.....	29,842	31,548	33,360	33,967
Public employment.....	11,171	11,941	12,929	13,630
Federal employees <sup>2</sup> .....	2,821	2,941	3,159	3,307
State and local employees <sup>3</sup> .....	8,350	9,000	9,770	10,323
Self-employed <sup>4</sup> .....	7,569	8,104	8,477	8,783

<sup>1</sup> Assumes 5.3 days of work-loss per employee per 255-day work year for persons who are currently employed.

<sup>2</sup> Assumes an 8-day work-loss per employee in a 260-day work year.

<sup>3</sup> Assumes a 7-day work-loss per employee in a 255-day work year, with 90 percent coverage.

<sup>4</sup> Assumes a 7-day work-loss in a 300-day year.

Table 2.—Benefits provided as protection against short-term income loss, 1988–91

Type of benefit	[In millions]			
	1988	1989	1990	1991
Total benefits.....	\$37,218	\$40,739	\$43,426	\$46,466
6th month of Social Security DI benefits.....	207	224	274	311
Individual insurance.....	2,057	2,451	2,701	2,588
Employment-related benefits.....	34,898	38,007	40,388	43,500
Benefits to workers in private sector (nonoccupational).....	15,332	16,840	17,315	17,585
Private cash-sickness insurance and self-insurance funds.....	2,903	2,732	2,711	2,645
Publicly operated cash-sickness insurance (TDI).....	1,779	1,907	2,269	2,817
Sick leave.....	10,651	12,201	12,336	12,123
Workers' compensation <sup>1</sup> .....	9,300	10,200	11,200	13,400
Government employee sick leave.....	10,266	10,967	11,873	12,515
General Assistance <sup>2</sup> .....	56	56	62	68

<sup>1</sup> It is assumed that 53 percent of total payments for workers' compensation are for short-term illness or injury.

<sup>2</sup> Recent payment data are not available, but have been projected from pre-1981 data. About 15 percent of total payments are attributed to short-term sickness.

more generous for employees who have the most longevity, and are more frequently associated with salaried or white-collar workers. However, if a worker has a lasting disability and qualifies for Social Security DI benefits, even the most generous sick leave rarely provides a full income throughout the minimum 5-month waiting period required by the DI program.

The average annual work-loss per currently employed worker in the private sector is about 5.3 days, according to the National Health Interview Survey (NHIS) conducted annually by the Public Health Service. This figure does not take into account persons in the first 6 months of a nonoccupational illness or injury, who no longer report that they are currently em-

ployed. The NHIS defines the currently employed population as persons who were working or had a job or business during the 2-week period preceding the week of interview.<sup>7</sup> Health-related work-loss levels are probably higher than the national household surveys indicated. Surveys, such as NHIS, the Survey of Income and Program Participation (SIPP), and the Current Population Survey (CPS), do not determine the onset of disability and relate it to income and work-loss during the first 6 months of illness or injury.

When deriving these health-related work-loss estimates, it is assumed that workers in the private sector receive an average of 3 days of paid sick leave per year when they have no other protection

and 2.4 days when they do have other (group) protection. These numbers are proportionately consistent with those used in the previous data series. It is also assumed that self-employed persons lose 7 days of work per year due to illness or injury. Average annual paid sick leave for Federal employees amounts to about 8 days per employee, or 3 percent of payroll.<sup>8</sup> Average annual consumption of sick leave by employees in State and local governments is estimated to be about 7 days in a 255-day work year, and sick leave covers only 90 percent of the work-loss. Thus, sick leave benefits for employees in the public sector provide protection against nearly all the average work-loss per year, whereas in the private sector only about half of the work-loss days are reimbursed for covered workers, and no sick leave benefits at all are available for the remaining 50 percent of employees. Aggregate sick leave benefit patterns are directly related to employment levels.

### Group Insurance

"Group insurance" is used in this note to refer to both employment-related group sickness insurance and the relatively small category of employers' self-funded sickness insurance. Table 6 shows benefit payments for group insurance in both TDI and non-TDI jurisdictions. Group insurance benefits in States with TDI programs amounted to \$0.9 billion in 1991. During the same year, a total of \$1.7 billion was paid to beneficiaries under voluntary, private-sector provisions, of which employment-related group insurance accounted for \$1,585.9 million, and self-funded insurance by employers amounted to \$137.1 million. The latter type of insurance includes some union-management plans. It should be noted that group insurance benefits under TDI provisions have steadily increased, from \$823 million in 1988 to \$922 million in 1991, while group benefits in voluntary (non-TDI) programs have decreased from \$1,962 million in 1988 to \$1,586 in 1991.

### Individual Insurance

Insurance protection may also be provided by policies purchased privately by

Table 3.—Benefits provided under State temporary disability insurance programs, by funding mechanism, 1988–91

[In millions]				
Funding mechanism	1988	1989	1990	1991
Total <sup>1</sup> .....	\$2,601.4	\$2,748.3	\$3,154.4	\$3,738.8
Private sector funding <sup>2</sup> .....	822.9	841.4	885.6	921.5
Group insurance.....	351.2	359.2	377.8	393.4
Self-insurance <sup>3</sup> .....	471.7	482.2	507.8	528.1
Publicly operated funds <sup>4</sup> .....	1,778.5	1,906.9	2,268.8	2,817.3

<sup>1</sup>Programs under the laws of California, Hawaii, New Jersey, New York, Rhode Island, Puerto Rico, and the Railroad Unemployment Insurance Act. Excludes hospital, surgical, and medical benefits in New York.

<sup>2</sup>Under the laws of California, Hawaii, New Jersey, New York, and Puerto Rico.

<sup>3</sup>Employers may self-insure by observing certain stipulations of the law. Also, includes some union-management plans.

<sup>4</sup>Includes State-operated funds in California, New Jersey, Rhode Island, Puerto Rico, the New York State Insurance Fund (a competitive State carrier), and special funds for the disabled unemployed in Hawaii and New York, and the railroad program.

Table 4.—Sick leave coverage and benefits paid to workers in the private sector, 1991<sup>1</sup>

Coverage	Sick leave benefits (in millions)	Number of workers covered <sup>2</sup> (in millions)	Percent covered
Total workers with sick leave coverage.....	\$12,123	42	50
With sick leave only.....	7,210	23	26
With sick leave and TDI coverage.....	2,564	10	12
Sick leave and group sickness coverage.....	2,350	9	11

<sup>1</sup>The purpose of this table is to illustrate how other income-protection programs overlap with sick leave in the private sector.

<sup>2</sup>Estimated.

individuals. Individual insurance is the primary type of protection used by the self-employed. This kind of protection is classified as a form of voluntary provisions, because it is not mandated by law. According to data provided by the Health Insurance Association of America, the level of individual insurance coverage has remained fairly constant for the past decade. In 1991, individual insurance benefits totaled \$2.6 billion (tables 2 and 6). However, some part of this amount may represent payments made beyond the first 6 months of disability.

### **Occupational Illness or Injury—Workers' Compensation**

Workers' compensation programs cover workers in the private sector, and State and local employees in all 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands. Two additional programs cover Federal Government employees and longshore and harbor workers. Workers' compensation programs protect workers and their families against both wage loss and medical care costs resulting from work-related illnesses or injuries. Survivor benefits are paid when disabilities result in death. At this time, we cannot separate these funds between public sector and private sector expenditures. The employer's cost of providing coverage varies according to risk, industrial classification, and experience rating.

Coverage for workers' compensation programs included about 93.6 million workers in 1991, with \$25.3 billion paid in wage-loss compensation.<sup>9</sup> Of this amount, it is estimated that \$13.4 billion was paid for short-term income loss, that is, up to 6 months of benefits. These benefits were paid by private insurance carriers, by State funds, or by self-insuring employers, as determined by laws in each State. However, as previously discussed, some part of these disability benefits may have been paid to persons who were no longer in the currently employed population.

### **General Assistance**

General Assistance is funded and administered entirely by State and local

governments in 36 States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. There is no uniformity of funding patterns between and among the jurisdictions that independently administer the programs. Almost one-fourth of program costs are financed by local governments. General Assistance is a "last resort" for needy persons who do not qualify for Federal financial assistance. Some jurisdictions require that the benefits be repaid when permitted by financial circumstances. Information about General Assistance is limited because there are no reporting requirements and no centralized data base. It is estimated that about 300,000 temporarily disabled persons received benefits under General Assistance programs in 1991. Although payment data have not been collected since 1980, the total amount is compara-

tively small—perhaps \$68 million was spent on short-term disability benefits for 1991.

### **Summary**

This note has reviewed the protection of workers against income loss during the first 6 months of illness or injury. The national income loss due to short-term sickness and disability during the first 6 months of illness, as expressed by pre-tax wages, was about \$69.6 billion in 1991. Of this amount, about \$46.5 billion (66.8 percent) was replaced by income-protection programs, including paid sick leave; group insurance; temporary disability insurance, under statutory State provisions; individual insurance; workers' compensation; general assistance; and the 6th month of the Social Security Disability Insurance program. In 1991, within

Table 5.—Estimated value of formal paid sick leave in the private sector, and in Federal, State, and local government employment, 1988–91

Types of employment	[In millions]			
	1988	1989	1990	1991
Total value of sick leave.....	\$20,917	\$23,168	\$24,209	\$24,638
Private industry <sup>1</sup> .....	10,651	12,201	12,336	12,123
Public employment.....	10,266	10,967	11,873	12,515
Federal <sup>2</sup> .....	2,751	2,867	3,080	3,225
State and local <sup>3</sup> .....	7,515	8,100	8,793	9,290

<sup>1</sup>It is estimated that private industry workers with sick leave protection receive an average of 3 days of paid sick leave per year, excluding other protection, and 2.4 days when they have other group protection.

<sup>2</sup>It is estimated that Federal employees use paid sick leave of 8 days per year on the average for nonoccupational sickness, which is equivalent to 3 percent of payroll. Federal civilian payroll data were obtained from the Survey of Current Business, and were multiplied by 3 percent.

<sup>3</sup>Average annual salary of State and local workers is obtained from the Survey of Current Business, and is multiplied by the number of full-time equivalent employees. This is multiplied by 6.3 (90 percent of the 7-day work-loss), and divided by 255 days.

Table 6.—Benefit payments by private insurance companies and self-insurers, 1988–91

Type of insurance coverage	[In millions]			
	1988	1989	1990	1991
Total benefits paid.....	\$4,959.0	\$5,183.8	\$5,411.7	\$5,232.0
Paid under voluntary provisions <sup>1</sup> .....	4,136.1	4,342.4	4,526.1	4,310.5
Group insurance.....	1,961.8	1,765.8	1,693.2	1,585.9
Individual insurance.....	2,056.5	2,451.4	2,701.1	2,587.5
Self-insurance <sup>2</sup> .....	117.8	125.2	131.8	137.1
Paid under temporary disability insurance..	822.9	841.4	885.6	921.5
Group insurance.....	351.2	359.2	377.8	393.4
Self-insurance <sup>2</sup> .....	471.7	482.2	507.8	528.1

<sup>1</sup>Not covered by temporary disability insurance laws.

<sup>2</sup>Includes some union-management plans as well as self-insurance by employers.

the private sector, wage and salary workers lost \$47.2 billion because of nonoccupational illnesses or injuries, of which \$17.6 billion (or 37.3 percent) was replaced. Coverage against income lost because of illness in the U.S. workforce favors full-time professional and technical employees with longer service in large or medium firms, and especially favors public sector employees. The lowest level of coverage is provided to part-time employees with limited seniority who work in production and related areas in small, private establishments. About 70 percent of wage and salary workers in the private sector have some protection through their employment against earnings losses caused by short-term illness or injury; 44 percent of these workers have short-term disability insurance, and half have sick leave coverage.

## Notes

<sup>1</sup> See Daniel N. Price, "Cash Benefits for Short-Term Sickness: Thirty-five Years of Data, 1948-83," *Social Security Bulletin*, Vol. 45, No. 5 (May) 1986, pp. 5-19.

<sup>2</sup> The surveys are Employee Benefits in Medium and Large Private Establishments, Employee Benefits in Small Private Establishments, and Employee Benefits in State and Local Governments. See References, below, for citations.

<sup>3</sup> See Department of Labor, Bureau of Labor Statistics, *BLS Reports on Employee Benefits in the United States, 1990-91*, Summary 93-4, June 1993, table 1.

<sup>4</sup> See Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Small Private Industry Establishments*, Bulletin 2388, 1990. Also see Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Private Establishments*, Bulletin 2422, 1991.

<sup>5</sup> See "Rethinking Disability Policy: The Role of Income, Health Care, Rehabilitation and Related Services in Fostering Independence," *Preliminary Status Report of the Disability Policy Panel*, National Academy of Social Insurance, March 1994, p. 47.

<sup>6</sup> See Department of Labor, Bureau of Labor Statistics, *BLS Reports on Employee Benefits in the United States, 1990-1991*, Summary 93-4, June 1993, table 2.

<sup>7</sup> See Department of Commerce, *Statistical Abstract of the United States 1993*, Table No. 199—"Days of Disability, by Type and Selected Characteristics: 1970 to 1990," 1993, p. 132.

<sup>8</sup> See Office of Personnel Management, *Work Years and Personnel Costs: Executive Branch United States Government, Fiscal Year 1992*, p. 75.

<sup>9</sup> See William J. Nelson, Jr., "Workers' Compensation: Coverage, Benefits, and Costs, 1990-91," *Social Security Bulletin*, Vol. 56, No. 3 (Fall), 1993, pp. 68-74.

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