

Short-term Disability Benefits

BY HILERY SIMPSON

Just over 60 percent of full-time employees were eligible for short-term disability (STD) protection in 1993-94.¹ These plans are designed to protect employees against lost income due to non-work related illnesses or accidents.² STD benefits include paid sick leave plans that commonly replace earnings for a fixed number of days per year, as well as sickness and accident plans that replace a portion of earnings for a fixed period of time, commonly 26 weeks.

The incidence of short-term disability benefits varies by sector and by full- and part-time status as shown (in percent) in the following table³:

Benefit	All employees	Private sector employees	Public sector employees	Full-time employees	Part-time employees
Sick leave	53	47	85	62	17
Sickness and accident plans	29	30	19	32	15

While public sector employees are almost twice as likely to have paid sick leave benefits as their private sector counterparts, private sector employees are more likely to have sickness and accident benefits. Full-time employees are twice as likely to participate in a sickness and accident plan and more than four times as likely to be covered by a sick leave plan than are part-time employees. Roughly one in four full-time employees have both paid sick leave and sickness and accident insurance.

The Employee Benefits Survey (EBS) started collecting data on STD benefits in 1979 for full-time employees in medium and large private establishments. Since then, the scope and detail of the data has expanded greatly. For example, information is now available from State and local governments and from small private establishments. In addition, data are now published on waiting periods, benefit amounts, and other short-term disability benefit provisions.

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Paid sick leave

Data from the EBS show that 53 percent of all employees were covered by sick leave plans in 1993-94. Coverage for full-time employees ranged from 50 percent of workers in small private establishments (fewer than 100 workers) to 94 percent in State and local governments. Coverage was 65 percent among medium and large private establishments (100 or more workers).

There are two primary types of sick leave plans: Annual plans and per-disability plans. Most employees with sick leave benefits are in annual plans. These allow a fixed number of sick days off per year. Less common are per-disability plans that provide a specified number of days per illness or injury. A small portion of workers are covered by both annual and per-disability benefits; in such instances, the annual component is commonly used for occasional absences and the per-disability component for longer absences. Least common are plans that provide an unlimited number of paid sick days on an "as needed" basis. The percent of employees covered by the various sick leave plan types are in the table below⁴:

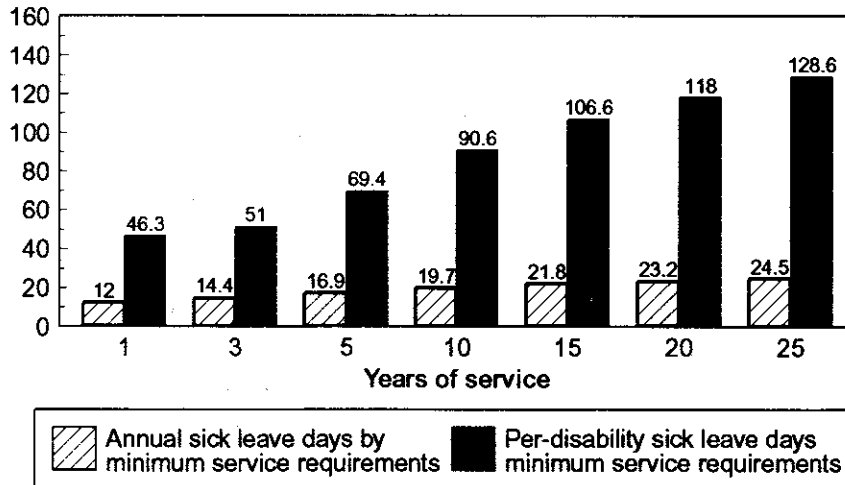
Type of sick leave plan	Percent of full-time employees
Annual plans only	75
Per-disability plans only	17
Both annual and per-disability	6
As needed	1

Annual plans. The number of days of paid sick leave under annual plans can vary according to the participant's length of service, such as 12 days after 1 year of service, 17 days after 5 years, and 22 days after 10 years. (See chart 1.) Nearly all workers covered by annual plans receive full pay while they are sick and are not subject to a waiting period before benefits begin.

Annual sick leave plans also allow many employees to carry over and accumulate unused sick leave from year to year. Known as cumulative plans, most have limits on the amount of sick leave, often 30 days, that can be carried over to the next year. Less common are cumulative plans

Chart 1. Average number of days per year at full pay by type of sick leave plan, 1993

Average days per year



NOTE: Data are for full-time employees in medium and large private establishments.

that allow workers to stockpile an unlimited amount of sick leave. Noncumulative plans commonly provide a greater number of days per year than cumulative plans; this difference usually increases with length of service.

Per-disability plans. Sick leave plans that commonly provide a fixed number of fully and partially paid sick days per illness are known as per-disability plans. Like annual sick leave plans, the total days available for each disability can become more generous as an employee's length of service increases. (See chart 1.) The following is an example of this type of provision in a per-disability sick leave plan:

Length of service	Days at full pay	Days at 50 percent of pay
1 year	20	45
3 years	40	25
5 years	65	65
10 years	100	30
20 years	130	0

As this example shows, the total number of leave days, as well as the percentage of fully paid days, increase with length of service.

Seventy-one percent of workers can use sick leave (regardless of plan type) for reasons other than illness or accident. Common uses include doctors' appointments (60 percent) and caring for a sick child (37 percent).

Sickness and accident plans

Almost a third of all full-time workers (32 percent) were covered by sickness and accident plans in 1993-94. Coverage ranged from 21 percent of workers in State and local

governments to 44 percent in medium and large private establishments. Among small private establishments, 26 percent were covered.

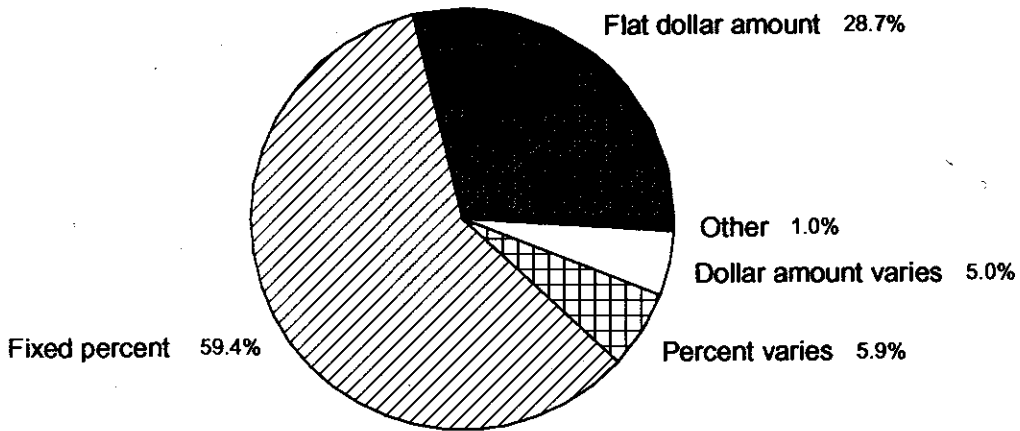
Funding. There are three basic methods used by employers to fund sickness and accident plans: Self-insured, unfunded, and insured. Under self-insured and unfunded plans, the employer assumes all risks and expenses of providing the benefit. A self-insured plan requires the employer to have liquid assets corresponding to the projected liability of the plan. These plans must be registered with the U.S. Department of Labor and are guaranteed by the Employee Retirement Income Security Act (ERISA) of 1974.⁵ Unfunded plans, on the other hand, are financed out of current operating funds. Unlike self-insured plans, there are no Federal filing requirements nor are the benefits guaranteed by ERISA.

Another common method of financing sickness and accident plans is through private insurance. Under this arrangement, the employer pays a monthly premium to an insurance carrier in exchange for the carrier assuming the risks and expenses of underwriting the policy. The actuarially determined premium is generally specified as a rate per \$10 of weekly benefits per month.

Benefits. Sickness and accident plans primarily pay benefits either as a percent of employee earnings or as a flat dollar amount. (See chart 2.) Though not common, benefits under both plan types can vary depending upon earnings and length of service, among other factors.

Most common are percentage of earnings sickness and accident plans. These plans typically replace from half to

Chart 2. Method of benefit payment for sickness and accident plan, full-time employees, 1993



NOTE: Percent of benefits depend upon earnings, length of service, or length of disability. Data are from medium and large establishments.

two-thirds of pre-disability income as shown in the following table⁶:

Benefit percentage for fixed percent plans	Percent of full-time employees
Less than 50 percent	1
50 percent	41
51-59 percent	2
60 percent	24
61-69 percent	22
70 percent	5
71-79 percent	3
80 percent or more	2

While higher wage earners generally receive a higher benefit under percent of earning plans, a majority of these plans have a dollar limit on the amount of the weekly benefit.⁷

Less common are flat dollar sickness and accident plans that provide either a fixed weekly amount, such as \$150, or a dollar amount that varies by earnings, length of service, or length of disability. The majority of these plans pay a weekly benefit of less than \$200. The percent of full-time employees with flat dollar benefit sickness and accident plans by weekly benefit amount is presented in the following table⁸:

Weekly benefit for flat dollar plans	Percent of full-time employees
Less than \$100	20
\$100 - \$199	56
\$200 - \$299	19
\$300 or more	5

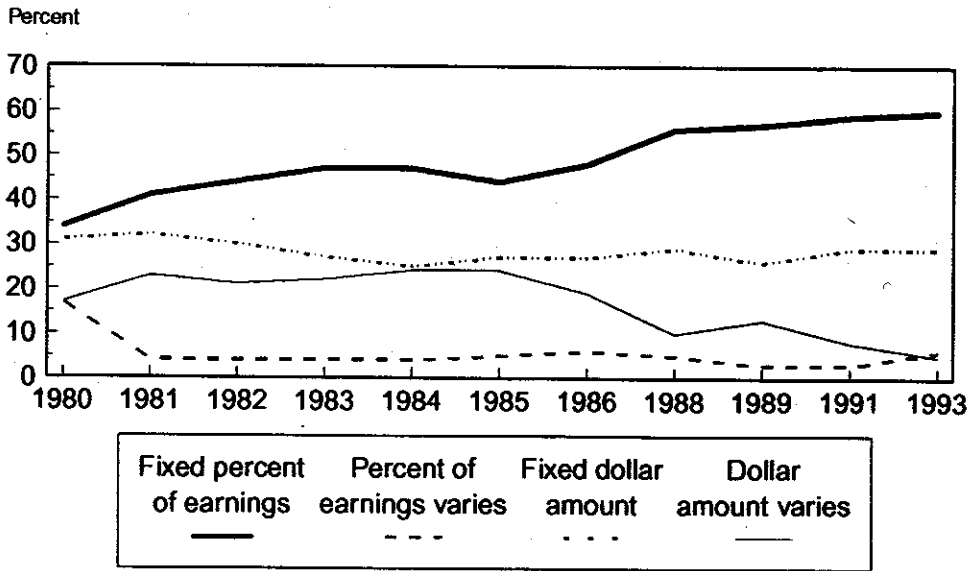
Plan types

The distribution of sickness and accident plan types have changed significantly since EBS started collecting these data in 1979. (See chart 3.) Since 1980, percent of earnings plans have become significantly more common while variable percent of earnings and variable dollar amount plans have become noticeably less common. Fixed dollar amount benefit plans have consistently hovered around 30 percent. In general, the incidence of sickness and accident types has varied little since 1988.

Waiting periods. Virtually all sickness and accident plans have a waiting period that must be met before benefits begin, most commonly 1 to 7 days. Waiting periods may be shortened or eliminated entirely for employees involved in an accident or who are hospitalized under certain plans. The waiting period is effectively dropped in establishments that provide both a sick leave and a sickness and accident plan since insurance payments typically start immediately after sick leave pay ends.

Non-work illnesses and injuries. Several States mandate plans that provide benefits to employees who have a non-work related illness or injury. For example, workers in New Jersey and New York are covered by mandatory temporary disability plans that are at least partially employer financed and managed by the State. Both States pay benefits based on a proportion of a worker's earnings for up to 26 weeks with a limit on the weekly benefit amount.⁹ Hawaii also

Chart 3. Percent of employees by sickness and accident plan types, selected years, 1980-93



NOTE: Data are for full-time employees in medium and large private establishments.

mandates employer coverage of employees, but unlike New York and New Jersey, the State does not manage the plan.

Employers' cost data

The employers' cost of providing sick leave and sickness and accident plans has remained relatively stable since 1991, the first year data were available for both benefits. The adjacent table illustrates these costs, both as an employer cost per hour worked for employee compensation and as a percent of total compensation.¹⁰

The first year that long-term disability costs (accounting for \$.02 per hour worked and 0.1 percent of total compensation) were published separately and not included in sickness and accident costs was 1996. As such, the apparent drop in sickness and accident costs between 1995 and 1996 is not a true decrease, but a result of the new data breakout.

Cost per hour worked and percent of compensation for—

Year	Sick leave pay	Sickness and accident insurance
1991	Cost	\$0.13
	Percent	0.8
1992	Cost .....	.14
	Percent .....	.9
1993	Cost .....	.14
	Percent .....	.8
1994	Cost .....	.14
	Percent .....	.8
1995	Cost .....	.14
	Percent .....	.8
1996	Cost .....	.14
	Percent .....	.8

Earlier Studies

Earlier Employee Benefits Survey studies have examined short-term disability plans in more detail than this summary provides:

- William J. Wiatrowski, "Employee income protection against short-term disabilities," *Monthly Labor Review*, February 1985, pp. 32-38, explores a variety of provisions of short-term disability plans among full-time employees of medium and large private employers.
- James Houff and William J. Wiatrowski, "Analyzing short-term disability benefits," *Monthly Labor Review*, June 1989, pp. 3-9, presents results of a short-term disability plan model that projected days of coverage, full-pay equivalent days, and income replacement ratios for full-time employees of medium and large firms.

Both studies are reprinted in *Employee Benefits Survey: An MLR Reader*, BLS Bulletin 2362, Bureau of Labor Statistics, 1990.

—ENDNOTES—

¹ This article is based on data from the 1993 Employee Benefits Survey of medium and large private establishments (those with 100 or more employees), as well as the 1994 surveys of small private establishments (those with fewer than 100 employees) and State and local governments. (Unless otherwise noted, all data in this article are from the medium and large private establishment survey.) These surveys cover 98 million employees (78 million full-time and 20 million part-time) in the private and public sectors. The Employee Benefits Surveys are conducted by the Bureau of Labor Statistics to obtain information on the incidence and characteristics of employer-provided benefits. For more information, see *Employee Benefits in Medium and Large Private Establishments, 1993*, Bulletin 2456, Bureau of Labor Statistics, 1994, *Employee Benefits in Small Private Establishments, 1994*, Bulletin 2475, Bureau of Labor Statistics, 1996, and *Employee Benefits in State and Local Governments, 1994*, Bulletin 2477, Bureau of Labor Statistics, 1996.

² Work related illnesses and injuries are covered under Worker's Compensation benefits. During more extended periods of non-work related disability, workers may be covered by long-term disability insurance or disability provisions of defined benefit plans. See Diane B. Hill, "Employer-sponsored long-term disability insurance," *Monthly Labor Review*, July 1987 and Donald R. Bell and William J. Wiatrowski, "Disability benefits for employees in private pension plans," *Monthly Labor Review*, August 1982.

³ Percent of employees participating in paid sick leave and sickness and accident plans, by sector and by full and part-time status, 1993-94.

⁴ Data are from full-time employees in medium and large private establishments, 1993.

⁵ The Employee Retirement Income Security Act of 1974 (ERISA) deals with the establishment, operation, and administration of welfare and pension plans.

⁶ The 1993 medium and large private establishment survey found that the average fixed percent of earnings benefit was 58 percent of predisability wages for full-time employees. Data for the table are for full-time employees in medium and large private establishments, 1993.

⁷ Seventy-one percent of workers with percent of earnings sickness and accident plans have a dollar limit on benefits. This, in effect, sets a limit on earnings, above which the employee gets a fixed benefit. For example, a plan may provide 50 percent of predisability income up to \$300 per week. Any employee who earns \$31,200 or more annually would receive the maximum weekly benefit of \$300. By comparison, an employee who earned \$20,000 annually would receive a weekly benefit of \$192.31.

⁸ Flat dollar benefit plans, in comparison to percent of earnings plans, pay a fixed weekly dollar amount, usually irrespective of earnings. The 1993 medium and large private establishment survey found that the average flat dollar amount of sickness and accident plans per week was \$156 for full-time employees. Data for the table are from full-time employees in medium and large private establishments, 1993.

⁹ Both States permit an employer to substitute a private plan for the State plan if the benefits provided are at least equivalent. In New York, many employers agree to pay the employee's share of the costs. California and Rhode Island also have mandated temporary disability insurance plans, but these plans require no employer contribution and therefore are not covered in the Employee Benefits Survey.

¹⁰ The level of employer costs for employee compensation shown in the table was calculated using different employment patterns for each successive time period. Therefore, changes in cost levels over time reflect both changing rates of compensation and changes in relative employment among occupations and industries with different rates of compensation. The BLS advises caution in interpreting short-term comparisons.