

## *Cash Benefits For Short-Term Sickness, 1970-94\**

This note updates a data series that was published by the Social Security Administration for the period 1948-83.<sup>1</sup> It expands on a modification of that series, "Protection Against Income Loss During the First 6 Months of Illness or Injury,"<sup>2</sup> that covered the years 1988-91 and examines the programs that protect the income of workers during the first 6 months of illness or injury, reporting on the years 1970-94.

Also provided are estimates of benefits paid and earnings lost due to lack of coverage. In 1994, wage and salary workers and the self-employed lost a total of about \$81.1 billion in earnings due to short-term illness or injury (table 1). About \$49.4 billion—or three-fifths—was replaced through income protection payments to workers in private and public sector jobs.

### *Income Loss and Protection*

Short-term disability programs are designed to provide income, continuing up to 6 months, for workers who are unable to perform their jobs because of temporary illness or injury. If the injury or illness requires a prolonged absence from work, this short-term income serves as a bridge between employment and long-term disability benefits. The waiting

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period for short-term sickness benefits, except for sick leave, is generally 1 week.

There is no national program that provides income maintenance during the first 6 months of illness or injury. Generally, income replacement for short-term disability is available through a variety of private employment plans and, in several States, through mandatory public programs. The Social Security Disability Insurance (DI) program provides monthly benefits to severely disabled insured workers and their dependents after a waiting period of 5 calendar months.

Sickness or injury that occurs outside of the workplace, and is not job-related, is classified as nonoccupational illness. Three programs protect workers from this kind of income loss: (1) temporary disability insurance (TDI) programs in certain States, (2) paid sick leave, and (3) employment-related group insurance. Some individual insurance policies provide similar protection, but these policies are purchased by individuals from private insurance companies and cannot be classified as employment-related. Another class of income protection is provided by workers' compensation programs, which cover job-related illnesses or occupational illnesses. These statutory programs are available in all States.

Table 2 gives a summary of benefits paid by the programs discussed in this note and summarizes information contained in tables 3-6. Table 2 also includes benefits from the DI program for the 6th month of disability.

Table 1.—Estimated total income loss due to injury or illness, by type of employment, 1970-94

[Amount in millions]

Type of employee	1970	1975	1980	1985	1988	1989	1990	1991	1992	1993	1994
Wage and salary workers.....	\$13,635	\$20,439	\$33,746	\$48,484	\$60,185	\$63,862	\$68,296	\$69,542	\$73,783	\$76,816	\$81,101
Private sector <sup>1</sup> .....	9,027	13,274	23,180	33,521	41,447	43,817	46,334	47,424	49,944	52,192	55,152
Covered by temporary disability insurance (TDI).....	2,527	3,717	6,491	9,386	11,605	12,269	12,974	13,279	13,984	14,614	15,442
Not covered by TDI.....	6,499	9,557	16,690	24,135	29,842	31,548	33,361	34,145	35,960	37,578	39,709
Public employment.....	2,744	4,337	6,557	8,898	11,171	11,941	13,485	13,650	14,284	14,824	15,428
Federal <sup>2</sup> .....	891	1,271	1,854	2,173	2,821	2,941	3,159	3,304	3,466	3,568	3,662
State and local <sup>3</sup> .....	1,853	3,066	4,703	6,725	8,350	9,000	10,326	10,346	10,818	11,256	11,766
Self-employed <sup>4</sup> .....	1,864	2,828	4,009	6,064	7,567	8,104	8,477	8,468	9,555	9,800	10,521

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

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

<sup>3</sup>Assumes a 7 day work-loss per employee in a 255-day workyear.

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

During 1994, pay lost by workers due to sickness or injury amounted to an estimated \$81.1 billion. The estimate includes wages that potentially would have been lost by certain workers had they not been under sick leave or continuation-of-pay plans. Sick leave pay is counted among the benefits that offset this potential wage loss. Of the \$81.1 billion income loss in 1994, \$55.2 billion represented loss from workers in the private sector (68 percent); \$14.8 billion represented employees in the public sector (19 percent); and \$9.8 billion represented the self-employed (13 percent).

### Temporary Disability Insurance

TDI provides workers with partial protection against the loss of wages due to nonoccupational disability. This protection is not a Federal program, but is offered to workers in California, Hawaii, New Jersey, New York, Rhode Island, Puerto Rico, and the railroad industry. Most of the State programs were established during the 1940s as an outgrowth of the unemployment insurance (UI) program. 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 1994, about 20.6 million workers, or 22.8 percent of the national private sector workforce, were covered by TDI.<sup>3</sup>

In New York, Hawaii, New Jersey, and Puerto Rico, the programs are financed jointly by employee and employer contributions. In California and Rhode Island, workers contribute the entire amount required to finance these State programs. 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 are disqualified if they receive

certain types of disability 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 1994, TDI benefits amounted to \$3.1 billion, of which \$2.4 billion were from State-operated funds and \$0.8 billion from private sector funds. State-operated funds came from programs in California, New Jersey, Rhode Island, Puerto Rico, the New York State Insurance Fund (a competitive State insurance carrier), special funds for the disabled unemployed in Hawaii and New York, and the railroad program (table 3). Private sector funding was from group insurance and self-insurance under the statutory programs in California, Hawaii, New Jersey, New York, and Puerto Rico.

### Paid Sick Leave

Paid sick leave is a major source of wage protection for workers who are away from their jobs due to a temporary disability. It is often a full-replacement benefit that requires no unreimbursed waiting period. The aggregate value for this benefit, estimated to be \$28.3 billion in 1994, is comparatively high. Sick leave for workers in private industry accounts for \$14.1 billion, one-half of the total. Another \$10.6 billion in benefits were paid to State and local government employees, and \$3.6 billion to Federal Government employees (table 4).

The most recent employee benefit surveys conducted by the Bureau of Labor Statistics (BLS) during 1992-93<sup>4</sup> show that 56 percent of all workers in the United States had sick leave available to them. Only 50 percent of employees in the private sector had paid sick leave, compared with 90 percent of employees in the public sector. Within the private sector, large and medium firms were more generous, with 65 percent of

Table 2.—Benefits provided as protection against short-term income loss, 1970-94

[Amount in millions]

Type of benefit	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total benefits.....	\$8,556	\$13,164	\$21,910	\$29,840	\$31,256	\$34,509	\$37,255	\$40,167	\$42,925	\$45,378	\$48,402	\$48,317	\$49,374
Sixth month of Social Security													
DI benefits <sup>1</sup> .....	...	160	175	195	194	220	207	224	274	311	396	403	412
Individual insurance.....	772	973	1,280	1,796	1,774	2,062	2,057	2,451	2,701	2,588	3,497	3,560	3,263
Employment-related benefits.....	7,784	12,031	20,455	27,849	29,288	32,227	34,992	37,492	39,950	42,480	44,509	44,355	45,699
Benefits to workers in private sector (non-occupational).....	4,196	5,997	9,984	12,440	12,713	14,275	15,391	16,364	16,834	17,555	18,456	18,310	19,039
Private cash-sickness insurance and self-insurance funds <sup>2</sup> .....	1,476	2,011	3,271	2,601	2,275	2,692	2,903	2,732	2,711	2,605	2,703	2,608	2,558
Publicly operated cash-sickness insurance (TDI).....	411	538	770	1,179	1,255	1,696	1,779	1,907	2,269	2,817	2,975	2,349	2,370
Sick leave.....	2,309	3,448	5,943	8,660	9,183	9,887	10,710	11,725	11,855	12,133	12,778	13,353	14,111
Workers' compensation <sup>3</sup> .....	928	2,037	4,430	6,922	7,594	8,361	9,335	10,161	11,242	12,388	12,937	12,429	12,500
Government employees' sick leave.....	2,660	3,998	6,041	8,487	8,982	9,591	10,266	10,967	11,873	12,537	13,115	13,616	14,160

<sup>1</sup>Annual Statistical Supplement to the Social Security Bulletin, table 6.C1.

<sup>2</sup>Represents benefits from group insurance and self-insurance programs.

<sup>3</sup>Assumes that 53 percent of compensation payments in regular programs are for short-term disability.

employees participating in a sick-leave program. As expected, coverage for professional, technical, and related employees in this group of workers was more prevalent (85 percent), than for clerical and sales employees (80 percent), and especially for blue-collar workers (45 percent).<sup>5</sup> Overall, sick-leave coverage in small private establishments was only 50 percent.<sup>6</sup> Benefits are more generous for employees who have more longevity, and for salaried or white collar workers. However, if a worker has a long-term disability, even the most generous sick-leave benefits do not provide a full income throughout the minimum 5-month waiting period required by the Social Security DI program.

Table 5 illustrates the overlap of sick-leave coverage and benefits paid to workers in the private sector in 1994. This sick leave and other related coverages for the workforce in the private sector are overlapping and interrelated:<sup>7</sup>

- (1) 26 percent of workers have sick leave only;
- (2) 24 percent have sick leave and short-term disability insurance (12 percent have TDI coverage and 11 percent have other group sickness insurance);

(3) 20 percent have short-term disability insurance only (10 percent are covered under TDI and 10 percent have other group insurance);

(4) 30 percent have neither sick leave nor short-term disability insurance

Altogether, 70 percent of the private sector workforce is covered by some type of income protection, either sick leave or disability insurance (the sum of categories 1-3 above). Also, short-term disability insurance is available to 44 percent of the private sector workforce (the sum of categories 2 and 3).<sup>8</sup>

According to the National Health Interview Survey (NHIS) conducted annually by the Public Health Service, the average annual work-loss for a currently employed worker in the private sector is about 5.3 days, with small year-to-year variations. This number does not take into account (and to this extent is an underestimate) persons who are in the first 6 months of a nonoccupational illness or injury and are no longer reported as being currently employed. The NHIS defines as "currently employed" only persons who were working or had a job or business during the 2-week period preceding the week of interview.<sup>9</sup> Health related work-loss levels are probably

Table 3.—Benefits provided under State temporary disability insurance programs, by funding mechanism, 1970-94

[Amount in millions]

Funding mechanism	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total <sup>1</sup> .....	\$717.8	\$932.3	\$1,353.1	\$1,870.5	\$1,964.6	\$2,452.9	\$2,601.4	\$2,748.3	\$3,154.4	\$3,701.9	\$3,835.2	\$3,178.0	\$3,137.6
Private sector funding <sup>2</sup> .....	307.2	394.0	583.5	691.2	709.6	757.4	822.9	841.4	885.6	884.6	859.8	828.6	767.6
Group insurance.....	183.7	203.7	261.6	295.1	302.9	323.3	351.2	359.2	377.8	377.6	367.0	353.7	327.7
Self-insurance <sup>3</sup> .....	123.5	190.3	321.9	396.1	406.7	434.1	471.7	482.2	507.8	507.0	492.8	474.9	439.9
Publicly operated funds <sup>4</sup> .....	410.6	538.3	769.6	1,179.3	1,255.0	1,695.5	1,778.5	1,906.9	2,268.8	2,817.3	2,975.4	2,349.4	2,370.0

<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.—Estimated value of formal paid sick leave in the private sector, and in Federal, State and local government employment, 1972-94

[Amount in millions]

Type of employment	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total value of sick leave.....	\$4,969	\$7,446	\$11,984	\$17,147	\$18,165	\$19,478	\$20,976	\$22,692	\$23,728	\$24,670	\$25,893	\$26,969	\$28,271
Workers in private industry <sup>1</sup> .....	2,309	3,448	5,943	8,660	9,183	9,887	10,710	11,725	11,855	12,133	12,778	13,353	14,111
Public employment.....	2,660	3,998	6,041	8,487	8,982	9,591	10,266	10,967	11,873	12,537	13,115	13,616	14,160
Federal <sup>2</sup> .....	992	1,239	1,807	2,435	2,456	2,590	2,751	2,867	3,080	3,225	3,379	3,479	3,571
State and local <sup>3</sup> .....	1,668	2,760	4,233	6,052	6,526	7,001	7,515	8,100	8,793	9,312	9,736	10,137	10,590

<sup>1</sup>It is estimated that workers in private industry, 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. Fifty percent of workers receive 3 days of sick leave pay, while 12 percent of workers receive 2.4 days per year.

<sup>2</sup>It is estimated that Federal employees use paid sick leave of 8 days per year on the average for nonoccupational sickness, 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.

higher than national household surveys indicate. The 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 sickness or injury.

It is assumed here that workers in the private sector receive an average of 3 days of paid sick leave per year when they have no other protection; 2.4 days when they have other group protection (based on NHIS data); and, if self-employed, they lose 7 days of work per year due to illness or injury (a "best-guess" estimate in lieu of better data on this group). Paid sick leave for Federal employees amounts to about 8 days per employee (3 percent of payroll), based on historical data from the Office of Personnel Management. Employees in State and local governments are estimated to use about 7 days of sick leave in a 255-day workyear, covering only 90 percent of their annual work-loss days (based on data collected by the BLS). Aggregate sick-leave benefit patterns are directly related to the size of the public sector workforce. In the private sector, only about half of work-loss days are reimbursed for covered workers, and no sick-leave benefits are available to the remaining 50 percent, whereas sick-leave benefits in public sector jobs are available to almost all employees.

### Group Insurance

Another major protection against income loss from sickness or injury is furnished through insurance policies. Tables 6 and 7 show aggregate premium and benefit payments. Two kinds

Table 5.—Sick-leave coverage and benefits paid to workers in the private sector, 1994

[In millions]			
Coverage	Sick-leave benefits	Workers covered <sup>1</sup>	Percent covered
Total with sick leave.....	\$14,173	45.2	50
Workers with sick leave only.....	8,429	24.4	26
Workers with sick leave and TDI.....	2,997	10.9	12
Sick leave and group sickness.....	2,747	9.9	11

Note: This table is to illustrate how other income-protection programs overlap with sick leave in the private sector.

of group insurance are reported. The larger is employment-related group sickness insurance, and the other is employers' self-funded sickness insurance. Table 6 shows benefit payments from group insurance both in TDI and non-TDI jurisdictions. Group benefits in the TDI States have been gradually declining since 1990 when \$885.6 in benefits were paid, to \$767.6 million in 1994. Self-insurance amounted to \$449.9 million, 57 percent of all group insurance benefits paid in TDI States. In the non-TDI States, group insurance peaked in 1992, with \$5.40 billion paid, and declined to \$5.05 billion in 1994. The \$112.8 billion in self-insurance accounted for only 6.3 percent of employment-related group insurance in 1994.

In 1994, short-term sickness premiums totaled \$7.0 billion, compared with \$5.8 billion in benefits. The net cost of insurance, \$2.2 billion for that year, has been decreasing over time. From another perspective using the same data, premiums paid in have increased by 27.9 percent since 1980, while benefits paid out have increased by only 5.1 percent.

### Individual Insurance

Individual insurance is a basic protection for self-employed persons, though others may also purchase policies for protection against income loss. For the purpose of this note, these are classified as a form of voluntary provision because they are not mandated by law. According to the Health Insurance Association of America (HIAA), individual insurance benefits were \$3.3 billion, or 28.8 percent of all benefits paid for income loss replacement. However, some part of these may have been payments made beyond the first 6 months of disability (see tables 2 and 6).

### Workers' Compensation

Workers' compensation programs protect workers and their families against both wage loss and medical costs resulting from work-related illnesses or injuries. Coverage is provided both to workers in the private sector and to State and local employees in all 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands. Two additional programs cover Federal employees and longshore and harbor workers. The employer cost of providing coverage varies according to risk, industrial classification, and experience rating. In 1994, an

Table 6.—Short-term sickness protection, benefit payments by private insurance companies and self-insurers, 1970-94

Type of insurance coverage	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total benefits paid.....	\$2,169.6	\$2,983.6	\$4,550.9	\$4,396.7	\$4,048.7	\$4,754.5	\$4,959.0	\$5,183.8	\$5,411.7	\$5,182.5	\$6,262.7	\$6,167.2	\$5,820.2
Under voluntary provisions <sup>1</sup> .....	1,862.4	2,582.7	3,967.4	3,705.5	3,339.1	3,997.1	4,136.1	4,342.4	4,526.1	4,298.9	5,402.9	5,338.6	5,052.6
Group insurance.....	1,113.9	1,530.4	2,550.4	1,804.9	1,457.1	1,819.8	1,961.8	1,765.8	1,693.2	1,581.4	1,717.0	1,657.3	1,677.3
Individual insurance.....	693.4	973.0	1,280.0	1,795.5	1,774.1	2,062.1	2,056.5	2,451.4	2,701.1	2,587.5	3,496.5	3,559.5	3,262.5
Self-insurance <sup>2</sup> .....	55.1	79.3	137.0	105.1	107.9	115.2	117.8	125.2	131.8	130.0	126.5	121.8	112.8
Under temporary disability insurance.....	307.2	400.9	583.5	691.2	709.6	757.4	822.9	841.4	885.6	883.6	859.8	828.6	767.6
Group insurance.....	183.7	210.6	261.6	295.1	302.9	323.3	351.2	359.2	377.8	376.6	367.0	353.7	327.7
Self-insurance <sup>2</sup> .....	123.5	190.3	321.9	396.1	406.7	434.1	471.7	482.2	507.8	507.0	492.8	474.9	439.9

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

<sup>2</sup>Includes some union-management plans.

estimated 96 million workers were covered under this program, approximately \$12.5 billion was paid in wage-loss compensation for short-term disability. These benefits were paid by private insurance carriers, State funds, or self-insuring employers, according to the rules of each State.<sup>10</sup>

## Summary

This note has reviewed the extent of protection of workers against income loss during the first 6 months of illness or injury. National income loss in 1994 was \$81.1 billion, of which \$49.4 billion (60.9 percent) was replaced by income-protection programs, including sick leave, group insurance, temporary disability insurance under statutory State provisions, individual insurance, workers' compensation, and (during the 6th month) the Social Security Disability Insurance program. In 1994, wage and salary workers in the private sector lost \$55.2 billion because of nonoccupational illnesses or injuries, of which \$19.0 billion (34.5 percent) was replaced. Wage replacement rates are higher for full-time professional and technical employees with longevity in large or medium firms, and especially public employees. The lowest level of coverage is given to part-time employees with limited seniority who work in production and related areas in small, private firms. Approximately 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. Forty-four percent of these workers have short-term disability insurance, and only half have sick-leave coverage.

## Notes

<sup>1</sup> See Daniel N. Price, "Cash Benefits for Short-Term Sickness: Thirty-five Years of Data, 1948-1983," *Social Security Bulletin*, Vol. 45, No. 5 (May) 1986, pp. 5-19.

<sup>2</sup> See Wilmer L. Kerns, "Protection Against Income Loss During the First 6 Months of Illness or Injury," *Social Security Bulletin*, Vol. 57, No. 3, (Fall) 1994, pp. 88-92.

<sup>3</sup> Coverage of workers under temporary disability insurance laws was obtained from the annual TDI survey by SSA, and the total private sector workforce number was secured from the *Survey of Current Business*, Vol. 76, No. 1/2 (January/February) 1996, Table 6.5C, "Full-Time Equivalent Employees by Industry."

<sup>4</sup> See Department of Labor, Bureau of Labor Statistics, *Employee Benefits in the United States, 1992-1993*, March 1995.

<sup>5</sup> See Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Private Establishments*, Bulletin 2456, November 1994.

<sup>6</sup> See Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Small Private Establishments, 1994*, Bulletin 2475, April 1996.

<sup>7</sup> See footnotes 5 and 6.

<sup>8</sup> See Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Private Establishments*, Bulletin 2456, Table 1, November 1994.

<sup>9</sup> See Department of Commerce, *Statistical Abstract of the United States, 1995*, table no. 204.

<sup>10</sup> See Jack Schmolowitz, "Workers' Compensation: Coverage, Benefits, and Costs, 1992-93," *Social Security Bulletin*, Vol. 58, No. 2 (Summer) 1995, pp. 51-57.

Table 7.—Short-term sickness protection: Premium payments to private insurance companies and self-insurers, 1970-94

[Amount in millions]

Type of insurance coverage	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total benefits paid.....	\$3,308.6	\$5,172.3	\$6,687.5	\$6,526.3	\$6,503.6	\$6,937.9	\$7,293.5	\$7,429.1	\$7,945.1	\$7,000.0	\$8,326.5	\$7,545.2	\$7,031.4
Under voluntary provisions <sup>1</sup> .....	2,891.2	4,592.1	5,925.8	5,663.9	5,477.2	5,979.2	6,240.8	6,387.4	6,742.2	5,878.3	7,124.5	6,517.5	6,092.6
Group insurance.....	1,512.7	2,214.2	3,329.5	2,251.8	2,107.7	2,320.0	2,466.7	2,186.3	2,321.9	2,035.2	2,150.4	2,055.3	2,026.8
Individual insurance.....	1,299.7	2,257.0	2,422.0	3,281.0	3,246.8	3,522.4	3,624.8	4,053.4	4,248.0	3,687.8	4,794.8	4,320.0	3,937.4
Self-insurance <sup>2</sup> .....	78.8	120.9	174.3	131.1	122.7	136.8	149.3	147.7	172.3	155.3	179.3	142.2	128.4
Under temporary disability insurance.....	417.4	580.2	761.7	862.4	1,026.4	958.7	1,052.7	1,041.7	1,202.9	1,121.7	1,202.0	1,027.7	938.8
Group insurance.....	249.6	304.8	341.5	368.2	438.1	405.7	449.3	444.7	506.5	478.8	459.6	438.7	400.8
Self-insurance <sup>2</sup> .....	167.8	275.4	420.2	494.2	588.3	553.0	603.4	597.0	696.4	642.9	742.4	589.0	538.0

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

<sup>2</sup>Includes some union-management plans.