Firm-Level Early Intervention Incentives: Which Recent Employers of Disability Program Entrants Would Pay More?

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There Are Many Proposals for Reforming Disability Insurance (DI)

- One approach "internalizes" the cost of recent employee DI entry
  - Each firm's workforce costs would change based on the DI benefits paid to its recent employees
- Two prominent examples of this approach:
  - Short term disability insurance
  - Experience rate payroll taxes

Overview

- Construct statistics to examine how potential liability for DI benefits varies by employer
- Measure how a reform proposal (via the statistics) would affect workforce costs by:
    - Firm workforce size
    - Firm DI benefit liability
- Results preview
    - Firms that have relatively high DI liabilities tend to be small and have low mean annual wages
    - Financial burden of reform varies by proposal
        - The burden may fall heavily on firms that employ many part-time, temporary, or low-skill workers
- Matched IRS earnings records and SSDI applicant records support the analysis

The Basic Proposals

- **Short term disability insurance:**
  - Require all employers to have short-term private disability insurance (STDI)
  - For up to 24 months, each STDI claimant would receive:
    - Partial wage replacement
    - Vocational rehabilitation and other supports
  - If a claimant is still unable to work, then the claimant may eventually apply for DI
- **Experience rate payroll taxes:**
  - The percentage of the Social Security payroll tax allocated to the DI Trust Fund does not currently vary by employer
  - Experience rate payroll taxes allocated to the DI Trust Fund based on the employers' historical DI incidence rate

Benefit Liability to Wage Ratio (BLWR)

- Firm-level annual statistic
- Ratio of benefit liability to total payroll:
  - Numerator: the liability accrued in year *t* for the first 24 months of DI benefits paid to year *t* workers who enter DI in year *t*, *t+1,* or *t+2*
  - Denominator: all Social Security wages paid in year *t*
- Example: BLWR = 0.012
  - Liability accrued in year *t* is 1.2% of Social Security wages paid in year *t*

Characteristics of Variation in BLWR

- Some firms have very high BLWR
  - For example, BLWR > 0.065
- Firms with highest BLWR are typically small
  - That is, employ less than 50 workers
- As BLWR increases, mean wage tends to decrease
  - DI is progressive: the wage-replacement rate declines with wages
  - High BLWR firms may have many temporary, part-time, and low-skill workers

Calculating Premiums for STDI Proposal

- Regress current year's BLWR on:
  - Wage and size categories
  - Last year's BLWR
  - Indicator for new firm
  - Mean worker age
  - Mean worker Social Security-covered wage
- Use estimated model to predict expected liability to wage ratio (ELWR)
- Divide ELWR by loss ratio to compute STDI expected premium

STDI Premium as Share of Social Security Wages

- Premiums increase with ELWR value
- Premiums are relatively highest among small firms
- Across ELWR and relative to the smallest firms, premiums for largest firms are closer to the average firm's premium

Distribution and Dispersion of ELWR and BLWR

- **Relative to BLWR distribution, ELWR distribution is**
  - **More uniform (not as skewed)**
  - **Has a smaller right tail (has fewer values at the distribution's upper end)**
- **Dispersion allows us to compare the liability burden at the tails relative to the median**
- **ELWR dispersion is lower than BLWR dispersion**
  - **Relative to BLWR, ELWR would lessen the premium high BLWR firms would pay**

Conclusion

- **The highest BLWR firms tend to employ few workers**
  - **Such firms may also tend to employ temporary, part-time, or low-skill workers**
  - **Internalizing DI benefit costs will greatly increase the labor costs of such firms**
- **Policymakers need to consider the potential effects of such proposals on the labor market for temporary, part-time, and low-skill workers**

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Citations

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- **Experience rating proposal:**
  - Burkhauser, Richard V., and Mary C. Daly. *The Declining Work and Welfare of People with Disabilities: What Went Wrong and a Strategy for Change*. Washington, DC: The AEI Press, 2011.
- **Our forthcoming report:**
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