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: $\text{BLWR} = 0.012$
  - 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
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
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

● PDI proposal:

● Experience rating proposal:

● Our forthcoming report: