WHAT IS TEMPORARY DISABILITY INSURANCE?

Temporary Disability Insurance (TDI) is a program that provides paid leave to employees who need to take time off from work due to illness that is not related to their work. Specifically, employees and/or their employers pay a small percent of the employees salary into an insurance fund and in return employees are provided leave with replacement of their wages in the event that they become seriously ill. Like all insurance programs, TDI works because the event being insured against (in this case illness) occurs infrequently within the population being covered, and so the small premium collected from a large number of employees covers all the claims. No state with a TDI program has claims rates higher than 101 per 1,000 employees, and the claims rate can be as low as 55 per 1,000 employees.

Currently five states (California, Hawaii, New Jersey, New York, and Rhode Island) and Puerto Rico have Temporary Disability Insurance programs. In most of these states, employers can choose to participate in a plan run by the state, self-insure, or use a private insurance plan. Employers with at least one employee must provide TDI, notwithstanding exceptions for certain classes of workers including domestics and public employees. The wage replacement rates are based on the employee's salary, although minimum and maximum benefit levels are in place in all the states. Employees are covered for a period of between 26 and 52 weeks. Pregnancy leave is covered during the period of incapacitation and it is reimbursed at the same rate as other illnesses.

Existing Temporary Disability Insurance programs are of interest for two reasons. First, the programs in these states provide models other states could adopt to provide paid medical leave to employees. Second, these programs might be extended to include family leave as well as paid medical leave. Although the Family and Medical Leave Act recently signed into law does provide unpaid leave to certain employees, many workers will not be able to take advantage of this benefit because they work in firms with fewer than 50 employees or because they cannot afford the loss of pay.

Women in particular would benefit from the extension of Temporary Disability Insurance to non-medically related leave. Various studies have shown that women's labor force participation is more continuous as a result of having paid leave and that women with this benefit come back to work sooner.[1] Furthermore, women covered by Temporary Disability Insurance take less time searching for jobs and receiving unemployment and continue to accrue seniority. As a result, the earnings of new mothers with TDI are greater than those without.[2] In most states with TDI programs, over 60 percent of all claims are paid to women, and pregnancy claims account for between 14 and 22 percent of all claims.

The following charts summarize the Temporary Disability Insurance programs in existing states. They include information on who is covered, the nature of the benefits provided, and the usage rates and costs. The data on these charts indicate that TDI Programs do work. They operate in the black and generally have low over-head rates. TDI plans cover a wide range of workers at a relatively low cost for both employers and employees and at no additional cost to the taxpayer. As the country searches for ways to improve the ability of workers to manage work and family, we think that the extension of Temporary Disability Insurance programs to additional states provides an excellent starting place.

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[1] O'Connell, Martin (1990). "Maternity Leave Arrangements, 1961-1985," in *Work and Family Patterns of American Women*, U.S. Bureau of the Census, Current Population Reports, Special Study Series, P-23, No. 165. Washington, DC: Government Printing Office.

[2] Spalter-Roth et al. (1990). *Improving Employment Opportunities for Women Workers: An Assessment of the Ten Years Impact of the Pregnancy Discrimination Act of 1978*. Washington DC: Institute for Women's Policy Research.

TABLE Ia. Regulations Concerning existing State Temporary Disability Insurance Programs 1989[1]

	Permissible Plans	Regulations concerning which Employers must Insure their Employees	Regulations concerning Employee/Employer Contributions[2]
California	• State Plan or • Private Voluntary Plan may be insured or self-insured, but needs majority consent of employees to be set up. These plans must meet all State Plan requirements, and exceed at least one requirement. • Those who become disabled while unemployed are covered from the "unemployed disabled" account.	• All employers with payrolls in excess of $100 in a calendar quarter. Specifically excluded are some domestic workers, most governmental employees, and employees of the interstate railroads, some nonprofit agencies, and individuals claiming a religious exemption. State employees are covered by a special state run fund.	• Employee contributions consist of .9% of first $21,900 annual earnings • No employer contributions mandated; however, employers are permitted to make contributions on behalf of the employee.
Hawaii	• No State Plan • Private Plan is required. It may be insured or self-insured and must equal or exceed statutory requirements. No employee consent is necessary. • A special fund is administered by the state for those who become disabled while unemployed and for eligible employees whose employers fail to cover them.	• All employers with one or more employee whether they are employed full-time, part-time, or temporarily. Federal employees, certain domestic workers, insurance agents paid solely on a commission basis, newsboys under age 18, family workers, student nurses, interns and other categories of workers may be excluded.	• Employee pays the lesser of .5% of average weekly wages or 1/2 the cost of the premium subject to a maximum of $0.80 per $100 weekly wages. • Employers may pay up to the full cost and must pay at least the balance of the premium.
New Jersey	• State Plan or • Private Plan may be insured or self-insured and must equal or exceed statutory requirements. No employee consent is necessary. • Employees who become disabled after fourteen days of unemployment are covered under the Disability During Unemployment Provision of the Unemployment Compensation Law.	• All employers who meet one of seven conditions, the simplest being that they pay gross wages of at least $1,000 in a calendar year. Exceptions include certain agricultural employees, certain domestic workers, federal employees, some employees of fraternal or lodge systems, student nurses, and students employed as part of financial aid packages.	• For both employers and employees the contribution level is 0.5% of the first $12,800 annual earnings for employees covered by the state plan and 0.625% of the first 1% of salary for employees covered by private plans.

[1] For California, Rhode Island, and New Jersey, the data below includes only the state run insurance plans, and not the private or self-insured plans in which employers may participate. For New York, the numbers include private and self-insured plans as well as the much smaller state plan for the unemployed. Puerto Rico has not been included due to a lack of data.

[2] The 1991 employee contribution rates are: California –1.25% of the first $31,767 annual earnings; Hawaii – 1/2 the premium cost; New Jersey – 0.5% of the first $15,300 to a maximum of $76.50; New York – 0.5% of earnings to a maximum of $0.60 per week; Rhode Island – 1.3% of the first $38,000 annual earnings.

TABLE Ib. **Regulations Concerning Existing State Temporary Disability Programs 1989**

	Regulations concerning Employee Eligibility	Regulations concerning Benefit Duration and Benefit Levels[1]
California	• Employees must have been paid wages subject to Disability taxes totaling at least $300 during the 12 months prior to the claim.	• Benefits are based on schedule using quarterly earnings figures. Maximum $224, minimum $50, for a maximum duration of 52 weeks. • Employees must serve a seven day waiting period before receiving benefits, unless they are hospitalized for at least 8 days. If the disability extends more than 21 days, any waiting period is waived.
Hawaii	• Employees must have worked at least 14 weeks during each of which they were paid for at least 20 hours or more. They must have earned not less than $400 in the four calendar quarters preceding the first day of disability. The 14 weeks need not be with only one employer. • Employees cannot have been unemployed for more than 14 days prior to injury.	• Benefits consist of 55% of average weekly wage rounded to next higher dollar, maximum $239, $1 minimum, for a maximum duration of 26 weeks. • There is a seven day waiting period before benefits can be received.
New Jersey	• Employees must have at least twenty weeks of earnings in covered employment during the year preceding claim, or have earned during that time an amount equal or greater than 12 times the statewide average weekly wage. In addition a claimant who has worked at least 770 hours of agricultural work may also be eligible. • Employees cannot have been unemployed for more than 14 days prior to injury.	• Benefits consist of 2/3rds of average weekly earnings to next higher $1: maximum $241, minimum $61, for a maximum duration of 26 weeks. • There is a seven day waiting period for which no benefits will be paid unless illness continues for 21 days.
New York	• Employees must have been employed by a "covered" employer for at least four consecutive weeks. • Unemployed workers are eligible for coverage during the first 26 weeks of unemployment, provided that they are eligible for and are claiming Unemployment Insurance benefits.	• Benefits are 50% of average weekly earnings. Maximum $170, minimum $20, or employee's average weekly wage if it is less than $20. Maximum duration of 26 weeks.
Rhode Island	• Employees must have been employed by an employer subject to the Disability Act and have received wages in each of 20 weeks in the year prior to the claim, or received total wages of at least $5,100 in the prior year regardless of the number of weeks worked.	• Benefits are 60% of individual average weekly earnings: the maximum was $252 through 6/89 and $270 after; the minimum rose from $48 to $51. Workers receive the greater of $10 or 5% of their benefits rate for each dependent child. The maximum duration is 30 weeks. • There is a seven day waiting period; no benefits will be paid unless illness continues for a maximum of 28 days.

[1] Maximum benefits for 1991 are: California -- $336; Hawaii -- $291; New Jersey -- $288; New York -- $170; Rhode Island -- $342.

TABLE IIa. Usage and Costs of Existing Temporary Disability Insurance Programs[1] 1989

	Coverage and Contribution rates[2] (1989 dollars)	Number of Claims	Average Duration of Claim
California	• 11,099,900 workers covered. • $1,519,928,000 in worker contributions.	• 752,687 total claims • 59.5% paid to women • Claims rate of 72.2[3] per 1,000 covered employees	• 12.5 weeks
New Jersey[4]	• 2,528,159 workers covered • $264,100,000 in worker and employer contributions	• 139,600 total claims • 66% paid to women • Claims rate of 55.3 per 1,000 covered employees	• 9.3 weeks*
New York	• 6,319,381 workers covered • $253,429,627 in worker contributions	• 642,158 total claims • Claims rate of 102 per 1,000 covered employees	• 4.7 weeks
Rhode Island	• 405,894 employees covered • $44,498,220 in worker contributions	• 39,511 • 62.5% paid to women • Claims rate of 97.3 per 1,000 covered employees	• 10.1 weeks[5]

[1] Usage for Hawaii and Puerto Rico is not included due to a lack of data.

[2] Contributions make up the primary source of income for Temporary Disability funds. The other main source of income is interest, but this makes up under 10 percent of the total receipts.

[3] The usage rate for New York is for participants in the state plan only.

[4] For the State of New Jersey, all numbers followed by asterisks are for claims ending during the months of July through December only. Pregnancy related claims are often not closed, so that the number (and proportion) of such claims is severely underestimated. It is impossible to obtain accurate numbers.

[5] Estimated by dividing the actual number of weeks paid (334,043) by the number of eligible first claims in the benefit year (33,225).

TABLE IIb. Usage and Costs of Existing Temporary Disability Insurance Programs 1989

	Cost (1989 dollars)	Pregnancy Related Claims (1989 dollars)
California	• $1,611,383,000 total expenditures • 95.4% expended on worker benefits • 4.6% expended on administration • $169.16 average weekly benefit	• 166,501 claims paid • 22.1% of all claims • $292,100,000 spent on pregnancy claims • $1,754 per pregnancy claim
New Jersey[1]	• $297,200,000 total expenditures • 94.1% expended on worker benefits • 5.9% expended on administration • $196.00 average weekly benefit	• 2,980 claims paid* • 4.2% of all claims[2] • $38,100,000 spent on pregnancy claims*
New York	• $397,300,000 total revenue • 73% expended on worker benefits • 27% expended on administration and profits • $177.51 average weekly benefit	• 81,614 claims paid • 12.7 percent of all claims • $96,724,651 spent on pregnancy claims • $1,185 per pregnancy claim. • $136.22 average weekly benefit[3] • 8.7 weeks average duration of claim
Rhode Island	• $62,604,359 total expenditures • 92.6% expended on worker benefits • 7.4% expended on administration • $173.58 average weekly benefit	• 5,897 claims paid • 14.9% of all claims

[1] For the State of New Jersey, all numbers followed by asterisks are for claims ending during the months of July through December only. Pregnancy claims are often not closed, so that the number and proportion of such claims is severely underestimated. It is impossible to obtain accurate numbers.

[2] Calculated by assuming the same number of pregnancy claims ended between January and June as did between July and December (2,980 in each period or 5,860 total). This number was then divided by the total number of claims in 1989 to obtain 4.2% as the proportion of all claims that are pregnancy related. However, pregnancy related claims are often not closed so that the proportion of such claims is severely underestimated. It is impossible to obtain accurate numbers.

[3] Calculated by dividing the total amount spent on pregnancy claims by the total weeks paid.

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