

REPORT

FINAL REPORT

Promoting Retention or Reemployment of Workers after a Significant Injury or Illness

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ABSTRACT

This is one of three policy action papers prepared as part of the Stay-at-Work/Return-to-Work Policy Collaborative, an initiative funded by the Office of Disability Employment Policy in the U.S. Department of Labor.

Each year, millions of workers in the United States lose their jobs or leave the workforce because of a medical condition. Keeping these workers in the labor force could help them stay productive, maintain their standard of living, and avoid dependency on government programs. In this paper, we suggest policies and practices that would encourage employers to retain or hire these workers, and we include specific recommendations for incorporating these policies in federal efforts.

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I. INTRODUCTION

Every year, millions of U.S. workers, many with considerable job tenure, experience a significant decline in productivity that may or may not persist, due to the onset or worsening of a medical condition. Many of them retain their job or find a new one, but available data suggest that each year, over 2 million workers leave the labor force altogether after they experience injury or illness—job related or not. In this paper, we suggest policies or practices that might result in employers retaining more of these workers or in employers hiring more workers who were separated from their jobs. Because workers who leave the labor force after the onset of a disability have disproportionately low levels of education and presumably work at jobs that require relatively low skill levels, the policies or practices described here are likely to be more effective if they focus on individuals and jobs that require lower skill levels.

If significantly more workers could stay in the labor force, there would be many positive outcomes. Employers, for example, could benefit from the experience of long-tenured workers, spend less money and time on hiring new workers, and potentially spend less on workers' compensation benefits and premiums for private disability insurance. Workers would keep earning money and enjoying the self-esteem and other advantages that come from employment. The benefits to society could include an expanded economy and lower tax liabilities for Social Security Disability Insurance, Medicare, and other federal and state programs.

The paper proceeds as follows. In Chapter II, we provide evidence about the size of the target population and the potential economic benefits of improving job retention and reemployment among the members of that population. In Chapter III, we briefly review current policies and practices. In Chapters IV and V, we present ideas for policies that could improve retention and reemployment, respectively. We conclude with specific recommendations for incorporating these ideas in federal efforts to promote retention and reemployment.

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II. SIZE AND CHARACTERISTICS OF THE TARGET POPULATION

To estimate the size of the population that could be the focus of policies to improve retention and reemployment, we consulted several sources. Weathers and Wittenburg (2009) analyzed data from the 2001 Survey of Income and Program Participation (SIPP) to estimate the number of people that experienced a work-limiting disability or illness in a year. Based on their analyses, we estimate this population to include about 2.6 million individuals.¹ The Current Population Survey (CPS) is a second source of data about the number of people on disability status. Using CPS data, we estimate that about 2.3 million workers annually are working one month, yet are out of the labor force because of a disability in the next month.² The wording of the CPS question indicates that none of the respondents stayed in the labor force, but we do not know whether any of them eventually reentered it. Nonetheless, these two independent estimates suggest that over 2 million workers per year experience a disability or other work limitation that causes them to leave the labor force, at least temporarily.

We analyzed the CPS data to determine whether particular demographic characteristics were associated with the onset of disability (Table II.1). Individuals who exit the labor force because of a disability are disproportionately female and non-white; they are less likely to have attended college and their average age is over 45. In particular, among the individuals who reported disability onset at some point in the eight months' worth of CPS data we examined, about 20 percent did not have a high school diploma, and only about 22 percent had a bachelor's degree or higher; in the labor force overall, these percentages were about 10 percent and 33 percent, respectively.

¹ In May 2002, the number of individuals between the ages of 25 and 61 who responded in the SIPP that they were employed and had no work limitation was 112.7 million. A total of 12.5 million individuals in that same age group reported a work limitation as of May 2002; 28 percent of them were employed. Of the 112.7 million without a work limitation in May 2002, 3.2 percent reported that they had a work limitation in May 2003—approximately 3.6 million. Assuming the same percentages held in May 2003 as in May 2002, 72 percent of the 3.6 million, or 2.6 million individuals, are not employed because of their work limitation in May 2003. For comparison, in 2003 1.9 million individuals applied for SSDI disabled worker benefits. (SSA 2015).

² The CPS is the monthly survey conducted by the U.S. Census Bureau for the Bureau of Labor Statistics to estimate the unemployment rate. In its battery of questions on employment and labor force status, the core CPS questionnaire asks individuals who report that they were not in the labor force whether it was because of a disability. The rotation scheme of the CPS allows us to estimate the number of individuals who reported they were employed in one month, and then reported they were not in the labor force because of a disability in the next month. The estimated average monthly number of individuals age 25 to 64 who experienced that flow (from being employed to leaving the labor force because of a disability) was approximately 190,000 between September 2014 and March 2015, which would be about 2.3 million individuals if projected to one year. For comparison, 2.5 million individuals applied for SSDI disabled worker benefits in 2014 (SSA 2015).

Table II.1 Characteristics of workers who report leaving the labor force because of a disability

	Gender		Age	Race		Education			
	Male	Female		White	Non-white	< High school	High school	Some college	4-year college degree +
Left labor force due to disability	54.9	45.1	46.3	57.9	42.1	18.6	29.8	29.3	22.3
Total labor force	63.4	36.6	44.4	63.4	36.6	10.3	28.9	28/2	33.6

Source: Current Population Surveys, August 2014 to March 2015.

Note: Entries are percentages except for age, which is a mean based on a weighted aggregation of observations throughout eight months of data. Observations are limited to persons between ages 25 and 64. Total unweighted (weighted) sample sizes for the seven paired months of data are 571 (1,325,000) for the first row of data and 365,749 (865,010,000) for the second row

III. CURRENT POLICIES AND PRACTICES

This chapter includes a brief description of the legislation and programs that address job retention and reemployment after the onset of a disability. It features a discussion of two major pieces of federal legislation that constrict employer behavior at firms covered by the laws—the Americans with Disabilities Act (ADA) and its amendments, and the Family and Medical Leave Act (FMLA). Workers’ compensation, which is mandated in 49 of the 50 states (Texas is the exception), provides coverage to individuals who have a job-related injury or illness. Private disability insurance (PDI), which provides benefits to individuals who have a disabling condition, may be part of a worker’s benefits package or may be purchased by the worker. We also note that the workplace culture of a firm, and the availability of employee assistance programs (EAPs) at some firms, can have an effect on retention. Finally, we note that several social safety net programs may serve individuals who become unemployed following the onset or worsening of a medical condition.

A. Legislative protections

Workers are protected against employment decisions that discriminate against them based on their disability status, and federal legislation gives them the right to take unpaid leave for medical reasons. State legislation also guarantees certain benefits to workers if they experience job-related injuries or illnesses. These protections are described briefly here.

- **The ADA and ADA Amendments Act (ADAAA)** prohibit employment decisions (hiring, promotion, training, retention, and all other terms of employment) that are based on a worker’s disability status.³ Firms are also required to provide reasonable accommodations to employees with disabilities if such accommodations do not involve undue hardship (that is, significant difficulty or expense) to the employer. Accommodations may include changes in processes or procedures, special equipment, scheduling changes, or changes in work assignments.⁴ These laws apply to all firms with 15 or more employees.
- **The FMLA** requires covered public- or private-sector employers to give eligible employees job-protected, unpaid leave for qualifying medical and family reasons. The Act requires employers to provide up to 12 work weeks of leave for “a serious health condition that makes the employee unable to perform the essential functions of his or her job.” To be eligible for FMLA leave, an employee must have been at the business at least 12 months, worked at least 1,250 hours over the past 12 months, and work at a location where the company employs 50 or more individuals within 75 miles of that location.
- **Workers’ compensation** provides money and medical benefits to workers who experience job-related injury or illness. In exchange, the worker forgoes the right to sue his or her employer for negligence. Regulations vary widely by state, but in general, benefits to injured workers may take the form of weekly payments in lieu of wages, lump sum payments for

³ In addition to encompassing all employers with 15 or more employees, the ADA also mandates employment protections at employment agencies, labor organizations, and joint labor-management committees.

⁴ In addition to the ADA, 48 states and the District of Columbia have laws that prohibit private employers from discriminating based on disability. Fifteen of these states have laws that apply to the same employers the ADA does, while 33 states and the District of Columbia have lower thresholds for company size and cover some or all private employers that have fewer than 15 employees.

loss of past or future earnings, and any medical payments. Benefits are payable to dependents if the job-related illness or injury causes the employee's death.

B. Workplace practices

Some workers benefit from their employers' own policies or practices. The compensation packages of some workers include PDI, and the workplace culture may be favorable to retaining individuals who have experienced the onset of a disability.

- **PDI coverage** can be short- or long-term. This insurance is offered and paid for by some employers (usually larger firms) as part of their benefits package for employees. Other employers offer PDI on an elective basis and employees are required to pay part of the premium.⁵ Short-term disability benefits begin soon after a claim is made and generally provide coverage for three to six months, although some policies may offer longer coverage. Long-term disability benefits begin later, from 31 days after the injury or the onset of a condition to a time set by the insured worker, but they can last until the death of the insured worker. Any payout is taxable if an employer pays premiums and tax-free if the individual pays them. Employees with PDI coverage usually have access to vocational assistance to help them coordinate their return to work.
- **Workplace culture**—including the size of the business, type of industry, processes and speed of production, attitudes of co-workers, and a host of other attributes—may or may not be friendly to individuals who need accommodations. Workplaces that might be characterized as less accommodating to individuals who have a disability may be unlikely to be amenable to any attempts to make them more accommodating. One feature of some workplaces is the existence of an EAP, in which the employer contracts with a third party or has an independent corporate unit to help workers resolve issues that affect productivity. In many cases, EAPs are perceived to be most helpful in cases of substance abuse. Recently, however, employer resource networks (ERNs), which are closely akin to EAPs, have arisen; these are multi-employer collaborations designed to foster retention (Hollenbeck and Timmeney 2012).

C. Social safety net programs

Virtually all social safety net programs apply eligibility rules that exclude individuals who keep their jobs. Many of these programs, however, offer training or monetary incentives designed to encourage reemployment. These programs include vocational rehabilitation (VR), Temporary Assistance for Needy Families (TANF), programs for adults under the Workforce Innovation and Opportunity Act (WIOA) (formerly the WIA, or Workforce Investment Act), Trade Adjustment Assistance, Social Security's Ticket to Work program, and more.

⁵ Individual coverage, usually for long-term insurance, may be purchased by workers who do not have coverage.

IV. RETENTION OF WORKERS

In this chapter, we consider policies or practices that can influence an employer's decision to retain a worker. In the next chapter, we consider policies or practices that will enhance the likelihood of reemployment. These proposed changes to the status quo would apply to all workers who have suffered a loss of productivity because of a disability, whether or not the disability is job-related.

Once a medical event has affected an employee's productivity, both the employee and the employer have input into the decision on whether the employee continues to work.⁶ In theory, the employer will offer to keep the worker if the benefits of retention exceed the cost of a separation. The benefit would be the value of the worker's expected productivity over a period of time minus the worker's total compensation and the net cost of accommodation over that same period of time.⁷ In addition, the employer may receive "external" benefits in the form of improved co-worker morale.⁸ The costs of a separation for the employer would be the cost of replacing the worker through a new hire or process change, any potential legal liability, and "external" costs in the form of lower co-worker morale or reduced good will.

Ben-Shalom (2015) estimates the potential economic benefits and costs that accrue to workers, employers, and the government for each additional individual who is retained instead of being replaced. That study estimates that for the average worker, retention instead of replacement yields net economic benefits to the worker (additional compensation and reduced out-of-pocket medical costs minus potential public assistance) of almost \$690,000 over the worker's expected remaining working lifetime.⁹

From the worker's perspective, an offer that allows him or her to keep a job and enjoy that net benefit will be weighed against the perceived value of the next best opportunity. This theoretical framework (see also Brouwer et al. 2009) suggests that the policies or best practices that will improve retention of workers should either increase the benefits, as perceived by both the employer and the worker, or reduce the costs to either party or to both. However, any policy may have unintended consequences that potentially offset its benefits.

In the following discussion, we consider policies or practices that give employers incentives to keep their workers, and policies or practices that can reduce the likelihood that employers will

⁶ The two parties, in general, will not have equal bargaining power in this decision, however.

⁷ Goetzel et al. (2004) estimate that the average productivity loss for 10 costly and prevalent health conditions is 15.8 percent.

⁸ Schur et al. (2014) presents evidence of positive "spillover" effects of accommodations on co-workers' attitudes toward their job and the company.

⁹ Notably, the study estimates net benefits of \$688,000 to the worker and \$226,000 to the government (reduced public assistance and net change in tax receipts), and a net cost of \$185,000 to the employer (accommodation costs and net change in productivity minus compensation for the worker and replacement). These estimates imply that reducing the costs or increasing the benefits of retention for the employer may be the most effective type of policy.

choose to lay off workers (Table IV.1). Note that some policy suggestions appear in both columns.

Table IV.1. Policy options to retain more employees

Policy options that provide incentives for employers to keep workers	Policy options that reduce the likelihood that employers will lay off workers
<ul style="list-style-type: none"> • Experience-rate SSDI portion of employer FICA tax • Mandatory short-term PDI with stay-at-work services • Ticket to stay at work • Direct subsidies/tax credits • Provide companies with information about accommodations • Provide technical assistance to companies to encourage formation of employment resource networks (type of EAP) 	<ul style="list-style-type: none"> • Experience-rate SSDI portion of employer FICA tax • Mandatory short-term PDI with stay-at-work services • Mandatory severance pay • Strengthen ADA; increase enforcement of ADA • Strengthen work search/recertification terms of SSDI

A. Policies designed to provide incentives for employers to keep workers

1. **Experience-rating FICA.** Several potential policies are designed to give employers financial incentives for retaining workers. Burkhauser and Daly (2011) advocate “experience-rating” the SSDI portion of the employer’s share of the FICA payroll tax. If an employer has a smaller than average number of ex-workers who go onto SSDI, then that employer would be subject to a slightly lower tax rate. This is like the practice used in the insurance industry (for workers’ compensation and unemployment insurance, for example) to set premiums based on past events, or experiences, for a given insured party. The policy is intended to promote safe practices on and off work premises, to encourage healthy habits for employees, and to motivate employers to provide accommodations so that the workers are less likely to apply for SSDI.
2. **Mandatory short-term PDI.** Autor and Duggan (2010) suggest a closely related policy—mandatory short-term PDI for all workers. Both the employer and worker would pay a portion of the premium, and regulations would be established that would require the insurance companies to provide services that promote staying at a job or returning to work. The proposal resembles the experience-rating practice because PDI premiums reflect claims experience, so employers would have an incentive to take actions that would reduce the likelihood of claims, but the insurer would also provide return-to-work services.¹⁰
3. **Ticket to Stay at Work.** Berkowitz (1996) suggested a voucher program for individuals who become disabled; it would be administered by VR agencies. Stapleton et al. (2008) generalized this idea and coined the term Ticket to Stay at Work. Short-term or long-term PDI carriers would identify claimants who (1) are likely eligible for SSDI and (2) agree to undergo the Social Security Administration’s medical eligibility process. If medical eligibility is demonstrated, SSA would then provide monthly payments to the insurance

¹⁰ Stapleton et al. (2015) present analyses of both the experience rating and mandatory short-term PDI proposals through simulations, and suggest that the extreme variability in ex-workers’ claiming behavior for employers with less than 100 employees would be problematic and therefore difficult to implement in universal policies. Furthermore, their findings imply that an unintended consequence would be to decrease the desirability of hiring unemployed individuals who might end up claiming in the future, thus increasing premiums if experience rating were in place.

carriers that could be used in a variety of ways, including passing them on to the employer or employee. The monthly payment to the insurer would be conditional on achieving certain return-to-work outcomes and would be like the monthly payment to employment networks under SSA's Ticket to Work program. Stapleton et al. (2008) also suggest that the system could be set up so that employers that do not offer PDI could still participate.

4. **Direct subsidies.** Direct subsidies, as well as favorable tax treatment for employers who provide accommodations, offer another means of providing financial incentive to employers. Under ADA, covered entities (that is, employers) are required to provide accommodations “unless such covered entity can demonstrate that the accommodation would impose an undue hardship on the operation of the business . . .” The cost of the accommodation could be viewed as an undue hardship. More employees may therefore be kept on if employers could apply for subsidies or take tax credits for accommodations that would otherwise be considered an undue hardship.¹¹ Clearly, an objective third party would need to administer such a subsidy, and details would need to be worked out about the terms, including determination of a retention period.¹²
5. **Information for companies.** In addition to policies that provide financial incentives, policies or practices that affect the workplace culture or processes can increase retention. In a study of “ADA-recalcitrant” employers, Kaye et al. (2012) found that the primary reason why accommodations were not offered to workers was that frontline supervisors did not know about accommodation options. If this lack of information is a significant problem, disseminating information such as the material produced by the Job Accommodation Network (JAN) to supervisory staff and bolstering that with encouragement from management could mean that more employees receive accommodations and have the option to stay at work. Public sponsorship of the development and provision of the material may be required for the smaller companies who are not able to do this on their own.¹³
6. **Employer resource networks.** Another workplace practice that may be effective in some organizations, and could also be promoted and publicized, is a type of EAP. EAPs are organizations (usually third-party contractors, but they may be internal departments in some companies) whose services are provided by an employer to help employees solve problems.

¹¹ The type of subsidy/tax credit considered here is a one-time payment or credit to cover some or all of the cost of the accommodation. Note that Ben-Shalom (2015) shows that this cost may be dwarfed by the (potentially permanent) productivity loss of the retained worker unless the accommodation restores or improves the worker's productivity. The Washington State subsidy program (see next footnote) begins to address reimbursing the employer for lost productivity, but it is limited to job-related injuries/illnesses.

¹² Washington State has a subsidy program for employers within its workers' compensation program. The program, titled Stay at Work Reimbursements, reimburses employers for half of an injured worker's base wages for up to 66 days for light-duty or transitional work and for training (up to \$10,000), tools (up to \$2,500), or clothing (up to \$400) expenses needed so that the worker can perform light-duty or transitional work and stay on the payroll. See Washington State Department of Labor & Industries (2015). The Oregon Employer-at-Injury Program is quite comparable to the Washington program.

¹³ This suggestion is intended to complement the work of the Job Accommodation Network (JAN), and indeed could be done by JAN. The gist of the Kaye et al. (2012) article is that the human resource staff persons in companies that are “recalcitrant” toward ADA, and therefore likely unaware of JAN, believe that the most effective “practical strategy for improving the retention of workers with disabilities” is “more or better training on disability issues for supervisors and managers.” The type of information desired is best practices in accommodation or examples of workers who became disabled and have been successfully accommodated.

They may be considered as a benefit to employees. EAPs primarily address mental health and substance abuse conditions, which are not the main concern of this paper, but recently a spinoff of the EAP called an employer resource network (ERN) has been quite successful at addressing retention issues of all kinds, including retention after a medical event (Timmeney and Hollenbeck 2012; Derr and Holcomb 2010). A feature of ERNs that enhances their relevance for this paper's target population is that "success coaches" work with workers' entire families, so that non-work-related issues such as transportation, personal care, or housekeeping can be addressed.

B. Policies aimed at reducing employer layoffs

1. **Experience-rating FICA or mandatory short-term PDI.** If it becomes more costly to decide *not* to retain workers, it is likely that the rate of worker retention will increase relative to the status quo. Two of the policy suggestions noted above—experience-rating the SSDI portion of the employer's FICA tax and mandating short-term PDI—would potentially raise taxes or premiums and thus increase the cost of separating a worker. In other words, these policies would encourage employers to retain their workers and discourage them from dismissing their workers.
2. **Mandatory severance pay.** In the United States, with its history and ethos of employment at will, workers who separate from employment are typically not given severance pay. A policy that would increase the likelihood of retention would be the requirement for mandatory severance pay for workers whose productivity is affected by a medical event. Many countries, especially in Europe, have strong regulations to protect workers, which often include mandatory severance pay when workers are involuntarily separated. In Slovakia, for example, employees who have lost their ability to work due to changes in their health as a result of an occupational disease are entitled to severance pay from the employer.¹⁴ In the United States, larger corporations often have their own policies that allow severance pay, but a universal mandate is unlikely to occur given the national culture of employment at will. Nevertheless, if the country were to move in this policy direction, an objective third party would need to verify the disabling event and the worker's employability.
3. **Stricter coverage/enforcement of ADA.** Stricter definitions of covered entities in the ADA, or stricter enforcement of the ADA, would not involve direct financial sanctions on employers who do not retain their workers. For example, the employment threshold could be set at 10 employees instead of 15, or more resources could be invested in auditing compliance.¹⁵
4. **Work search/recertification in existing programs.** Although it might not happen often, sometimes workers turn down an opportunity to stay with a firm even if the firm makes an offer to retain them. The workers may think they are likely to get onto the SSDI rolls or the

¹⁴ In this example, the worker is *entitled* to mandatory severance pay. In the United States, in contrast, lump-sum settlements in workers' compensation are negotiated and are not allowed in some states.

¹⁵ In general, a significant unintended consequence of any of the policies that impose or increase financial sanctions or penalties on employers would be the possibility that the employers would be less likely to hire disabled individuals. If employers have no workers for whom separation would impose a financial penalty, then the employers would not have to factor in such a penalty in their decision making on retention vs. separation.

rolls of another program, and they prefer that option to light duty or other accommodated employment. Policy initiatives that might keep this from happening would include (1) changing the eligibility criteria for disability benefits or other social safety net programs so that turning down an accommodation would make an individual ineligible, or (2) strengthening work search and recertification requirements in those programs.

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V. REEMPLOYMENT OF WORKERS

In this chapter, we consider policy options that would make it easier for workers in our target population to find new employment after being separated from a job, regardless of whether their injury or illness was job-related. Program and policy initiatives designed to expedite the reemployment of a worker who has separated from his or her job will, in general, bring a third party into the process besides the job seeker and the potential employer: a workforce intermediary.

An individual may register as a job seeker with the Employment Service,¹⁶ may receive job search assistance or training from a publicly funded workforce development or VR agency, or may rely on another organization that offers job placement services.¹⁷ Effective policy initiatives designed for any one of the three parties—job seeker, potential employer, or intermediary—could succeed in improving the reemployment rate.

Finding a new job can be a daunting task for individuals who have lost their jobs for medical reasons. They are unemployed and likely have a health issue that might affect their productivity. They are also more likely than average to be older and have relatively low levels of education or job skills. Finally, they may think getting onto the SSDI rolls is a better option than employment. They are likely to have considerable work experience, however, which they can bring to a new position.

Taking these considerations into account, we list policy options that may increase the reemployment prospects of the target population (Table V.1). We describe each of these policies in detail below.

Table V.1. Policy options that could promote reemployment

Policy options
<ul style="list-style-type: none">• Implementation of WIOA• Ticket-to-Work-type support of temporary employment agencies• Employer tax credit (expansion of WOTC)• Employer hiring subsidies• Public service employment• Wage subsidy paid to/tax credit for employee• Wage-loss insurance mandate• Increased investment in training through WIOA and VR

¹⁶ The federal government has promoted local consolidation of publicly funded workforce development agencies into one-stop centers and has promoted the name American Job Center for them. This consolidation has not occurred uniformly across states and agencies, and we use the traditional name here.

¹⁷ Faith-based or other nonprofit social service agency or sectoral collaboration, for example.

1. **WIOA.** First, we argue that WIOA, which superseded WIA as of July 2015, is a significant change to the status quo in the world of workforce development. WIOA emphasizes integrating local workforce investment area (LWIA) agency services with services provided by VR agencies, and establishing performance standards for VR agencies. Although this emphasis may enhance VR effectiveness, it may only marginally help our target population, because many states (21 in 2012) are subject to “order of selection” (OOS), which mandates that VR assist individuals with the most significant disabilities first.¹⁸ Because implementing an OOS often requires establishing a waiting list, and individuals with the most significant disabilities have the highest priority to receive services, agencies with an OOS would not be able to serve workers who experience a disability unless that disability was considered among the most significant. Furthermore, an emphasis of WIOA is on youth with disabilities who are transitioning from education to employment, which also excludes experienced workers who become disabled. Nevertheless, it is to be hoped that the integration of LWIA agency and VR agency services for individuals with disabilities in WIOA should result in greater reemployment of older individuals when compared with the pre-WIOA status quo.
2. **Temporary employment agencies.** Aside from the public workforce development agencies, private employment agencies could be a vehicle to reemployment for the experienced workers in our target population. For example, the employment networks (ENs) in the Ticket to Work Program have established ties with employers and have the expertise to work with disabled individuals in developing employability plans. Although the evidence so far indicates only meager effectiveness of the Ticket to Work program (see, for example, Stapleton et al. 2014), it may be that expanding it to allow ENs to serve individuals who have been certified as having separated from their job because of a medical issue will allow the networks that have been established by the ENs to (marginally) increase the reemployment of these individuals.
3. **Employer tax credits.** Other policy options that may promote reemployment include subsidies that lower the cost of hiring or policies that increase the benefits of hiring. The Work Opportunity Tax Credit (WOTC) gives employers a financial incentive to hire individuals from certain target groups, including individuals who have VR referrals. Between FY 2002 and FY 2013, credits were given to employers for between 10,000 and 28,000 VR referrals per year. In 2007, the WOTC was expanded to disabled veterans; by FY 2013, a total of about 25,000 certifications had been issued (U.S. Department of Labor 2015). A policy option that might be considered would be an expansion of this tax credit for individuals who are certified as having separated from their job because of a medical issue. Potential downsides to employer tax credits are (1) they could only be used by profit-making businesses that pay taxes; (2) they result in windfall gains to employers who would have hired the workers anyway; (3) they would probably create a paperwork burden; and (4) they could provoke the stigmatization of eligible individuals.¹⁹

¹⁸The Rehabilitation Act provides flexibility for a state to have two state VR agencies—one for individuals who are blind and one for individuals with other types of disabilities. Across the 50 states—plus the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands—there are a total of 80 VR agencies. In FFY 2012, 40 agencies were on an OOS. While the number of agencies on an OOS varies from year to year, from FFY 2008 to FFY 2011, 20 states and the District of Columbia never had any agency on an OOS, while six states always had their agencies on an OOS.

¹⁹ A broader tax credit that is being pilot-tested can overcome these issues. The SourceAmerica’s Pathways to Careers pilot includes an employer payroll tax adjustment (EPTA) component that lowers an employer’s FICA tax if

4. **Employer subsidies.** Another option that is closely related to tax credits is providing subsidies to employers for hiring individuals from the same target population (individuals who are certified as having separated from their job because of a medical issue). Subsidies would be available for a wider set of employers, not just those with taxable earnings. While direct payments to employers have been used sparingly in the United States (on-the-job contracts were an allowable, but rarely used, service by local workforce development agencies under WIA), they have been part of active labor market policies in several European countries. Recent research has confirmed their effectiveness in Sweden for job seekers with disabilities (Angelov and Eliason 2014)²⁰ and in Hungary for long-term unemployed workers (Cseres-Gergely et al. 2015).²¹ The latter study found subsidies to be particularly effective for men over 50 without a high school diploma.²² Just as in the case of retention, if a financial incentive were to be implemented, it would be important to structure payments over time so that the employment relationship was lasting. As with tax credits, a downside to subsidies would be the potential windfall for those employers who would have chosen to make the same decisions without the subsidies.
5. **Employment in public service.** Another policy option that might be effective in leading to unsubsidized employment is public service employment. These jobs are time-limited stints in public or nonprofit businesses with the goal of providing income maintenance to participants and offering services to a community that would not otherwise have received them. One objective is to move participants in public service employment to permanent, unsubsidized employment with the government unit offering the initial opportunity. Public service employment was a core element of the 1973 Comprehensive Employment and Training Act, but was tarred by the reputation of being an avenue for political patronage jobs, and was disallowed in the 1982 Job Training and Partnership Act. It was reinstated in WIA as an allowed activity under the National Emergency Grants program.
6. **Employee wage subsidies and tax credits.** Wage subsidies and tax credits for employers may be seen as stigmatizing and may have the unintended consequence of reducing the hiring of eligible workers. One way to overcome that would be to direct the subsidies or tax credits to the workers rather than employers.²³ The theoretical causal mechanism here would be that job seekers would become more active or assertive if they knew that the government would “sweeten” their pay with a subsidy or tax credit. Employers might prefer this option

they hire an individual who is on or has been on federal disability rolls, if the employment meets other qualifying criteria (see <http://www.sourceamerica.org/workforce-and-research-programs/pathways-to-careers#>). This idea would suggest that eligibility would be expanded to individuals who have become disabled whether or not they have received federal disability benefits.

²⁰ A Swedish government agency certifies the disability and sets the subsidy based on the worker’s wage rate and type of disability. The subsidy is capped.

²¹ Card et al. (2015) note that private employment subsidies have been elements in various countries’ active labor market policies and that they have been effective for long-term unemployed workers, especially in recessions.

²² For the long-term unemployed over age 50, the subsidy is 25 percent of first-year wages and 14 percent of second-year wages. The subsidy is capped, however, at twice the minimum wage.

²³ Goodman et al. (2013) recommend expanding the earned income tax credit for people with disabilities. These expansions would include a higher childless credit for workers with disabilities or eligibility for low-income youth below age 25 with disabilities.

as well, since it would transfer the paperwork and administrative costs of applying for the subsidies onto the employee.

7. **Wage-loss insurance.** Publicly provided wage-loss insurance coverage would cushion a worker who cannot find a job with a wage that equals or exceeds the wage of the job that was lost. This has been suggested as a policy option for dislocated workers (Davidson and Woodbury 1995). This study analyzed an alternative that paid 50 percent of the difference in the wage rate for a period of one or two years. Such an insurance could be used for workers who are separated from their jobs for medical reasons. Long-term PDI is a precedent for this policy. If covered, employees are often separated and still receive wage replacement. A closely related practice is the income protection insurance offered in Australia, New Zealand, Ireland, South Africa, and the United Kingdom. This insurance pays a benefit if the policy holder loses a job for health reasons, and in particular, the insurance typically has a proportionate benefit to encourage return to work, wherein the benefit is reduced when the beneficiary takes a part-time or low-wage job.
8. **Training.** The last policy option is to increase public investment in training. Unfortunately, most evaluations of the payoff to training dislocated workers are rather discouraging (Heinrich et al. 2010). In a Hamilton Project paper, Jacobson et al. (2011) make several policy recommendations to improve that payoff, but for the most part, they are aimed at high-skill occupations. Returns to VR are much more encouraging (Hollenbeck and Huang 2013), but this research does not single out training of tenured workers who have been separated from employment.

VI. RECOMMENDED ACTION STEPS

There can be substantial economic costs when an individual's productivity at work suffers because of a medical condition and the individual does not stay on the job or find a new one. The experience and productivity of long-tenured workers are lost, and SSDI applications and benefits increase. The premise of this paper is that there are policy options or workplace practices that could improve the status quo, encourage more retention and more reemployment, and reduce disability's cost to society.

All of the options presented in this paper have advantages and disadvantages. Furthermore, the cost of implementing them varies and so does the extent to which they are marginal or major structural changes to the status quo. The recommendations we are making here are first steps—they require a relatively modest investment of resources and, because they emphasize “carrots” over “sticks”, are not likely to face substantial opposition from employers. We recommend that any public agencies rigorously evaluate the impacts of these policies before making full-scale implementation. In the long run, more universal or expensive interventions—such as experience-rating FICA taxes, implementing mandatory PDI with employment supports, instituting wage subsidies, or promoting public service employment—may be warranted.

A. Retention

In general, it is easier for government agencies to give employers and workers evidence about the benefits of retention than it is to establish regulations that involve financial incentives or penalties. The question, of course, is the extent to which retention can be promoted simply by disseminating information. Policy options that involve financial incentives or penalties will be more palatable if they focus on increasing the benefits of retention and not on increasing the cost of separation (that is, they emphasize carrots over sticks).

With those caveats in mind, we recommend that:

- The hypothesis suggested by Kaye et al. (2012)—that disseminating information to frontline managers and supervisors is likely to be effective in facilitating accommodations and retention—can be tested relatively easily. The Department of labor (DOL) should consider conducting a “nudge-like” experiment in which relevant materials are sent to a sample of firms that have been recalcitrant in following the terms of the ADA; the materials would be withheld from another sample.²⁴ Then the levels of retention and accommodation of workers can be tracked for the two samples. If supplying such materials increases retention, then DOL should consider disseminating such information more broadly.
- ERNs are a fledgling initiative that has only been established in about a dozen sites, but has been shown to have positive impacts on retention. DOL should consider conducting a study to determine whether and how ERNs have tackled the issue of retention following a disabling illness or injury. A key element of the existing ERNs is the public/private sharing of the cost of success coaches. If these collaborations do have promise with respect to the retention and accommodation of disabled workers, DOL should (1) encourage state agencies

²⁴ These materials may have been developed, for example by JAN, or they may need to be developed as part of the experiment.

to collaborate with employers to establish ERNs and (2) provide technical assistance to employers that are trying to get ERNs off the ground.

- DOL, in collaboration with human resource organizations such as the Society for Human Resource Managers, should consider providing EAPs and ERNs information about best practices in retaining workers who experience medical events.
- Using the Ticket to Work infrastructure, DOL should consider piloting a “Ticket to Stay at Work” program, a voucher-like initiative primarily for workers covered by PDI.
- Finally, another carrot-like approach would be a subsidy program that would cover part of employers’ accommodation and/or lost productivity costs. As a first step, DOL should consider assessing the evaluability of such a pilot and design a demonstration of it.

B. Reemployment

As local workforce development agencies implement WIOA, close attention should be paid to its impact on the training and reemployment of workers who experience injury or illness in order to determine whether its implementation will promote reemployment. In addition to an evaluation of WIOA, we recommend:

- The Rehabilitation Services Administration or DOL should consider conducting, and promote the results of, a study that identifies best practices in achieving reemployment in the population we focused on in this brief.
- Because any financial incentive tied to the reemployment of workers who have been separated from their job after a medical event would require some accountability, DOL should consider how the existing structure of state VR and local workforce development agencies could be used to certify the eligibility of such workers on a widespread basis.
- A more extensive study that merits DOL consideration would be the design of a pilot program for expanding the Ticket to Work program to individuals who have lost their jobs, but have not yet applied or been approved for SSDI benefits.
- Finally, DOL should explore the possibility of designing and piloting of a wage-loss insurance program that pays benefits to individuals who have lost their job after experiencing a medical event and who are reemployed at a reduced salary.

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