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Assessing the Costs and Benefits of Return-to-Work Programs

Return-to-Work Policy in Perspective

Each year, millions of workers in the U.S. develop a chronic illness, disability, or other serious medical problem that hinders their ability to work.

Decisions about retention efforts are made by the employers of these workers, who are in a position to help them return to work quickly.

Employers may fail to invest in RTW services because of imperfect information about the cost and benefits of doing so.

In addition to the employer perspective, we also assessed whether net benefits are positive from the perspectives of the worker and the federal government.

Each year, millions of workers in the United States develop a chronic illness, disability, or other serious medical problem. Many are at risk of exiting the labor force, especially if they do not receive timely and effective return-to-work (RTW) supports. These workers and their families frequently face substantial reductions in their standard of living, and may end up relying on public programs such as Social Security Disability Insurance (SSDI), Supplemental Security Income (SSI), Medicare, and Medicaid for income support and health care.

Ultimately, decisions about retention efforts are made by the employers of such workers, who are in a position to help them return to work quickly. A profit-maximizing employer would presumably do so if an assessment revealed the associated benefits would outweigh the costs. In fact, many employers do make such investments, most often when the workers possess particularly valuable skills and the cost of replacing them by hiring and training others is very high. If a worker has lower skills and can be readily replaced, however, a for-profit employer is much less likely to invest in RTW supports, especially if the cause of disability is not work related. Our analysis focuses on this latter situation.

The failure of employers to invest in RTW services may sometimes be due to their having imperfect information about the costs and benefits of doing so. Some may simply underestimate the cost of replacing the worker, be unaware of inexpensive investments that would enable RTW, or ignore the negative impact of employment termination on the productivity of the worker's colleagues. To gain a better understanding of how the provision of RTW services may affect employers' bottom line, we compared the costs and benefits of implementing an RTW program in the private sector, giving careful consideration to the sensitivity of the results to certain assumptions needed to complete the analysis.

COMPARING TWO SCENARIOS

To facilitate the analysis, we defined two scenarios representing competing alternatives, from the employer's perspective:

- **RTW:** In this scenario, the employer has an RTW program in place. After returning to work, the worker who experienced disability onset remains employed full time in his or her current position until full retirement age.
- **Replacement worker:** In the replacement worker scenario, the employer has no RTW program in place; lays off the worker who

experienced disability onset; and hires a new employee, who was previously in a comparable job, to fill his or her position.

We compared the benefits and costs of these two scenarios. In addition to assessing the employer perspective, we examined whether net benefits were positive from the perspectives of the worker and the federal government. The cost and benefit components we considered included those associated with workplace accommodations, human resources (including recruiting and training costs for the replacement worker), labor compensation (including both earnings and nonwage benefits), productivity, medical out-of-pocket (MOOP) costs,

and public assistance programs (including SSDI, SSI, Medicare, Medicaid, Unemployment Insurance, and premium subsidies paid under the Affordable Care Act). We used a variety of published research and data collected by various organizations to obtain relevant cost and benefit measures, making informed assumptions where needed.

Table 1 presents key assumptions we made to facilitate the analysis. Rather than conduct the analysis for a very specific population of workers (for example, workers with specific characteristics, in a specific industry and job, and who experienced a certain type and severity of disability), we based many of our calculations on the average or median case and performed a careful sensitivity analysis to assess how specific assumptions influenced our results. The wage assumptions were comparable to 2013 medians, as published by the U.S. Bureau of Labor Statistics, for occupations such as property managers, chemical technicians, social workers, and crane operators. We did not account for

any potential savings to the employer resulting from reductions in long-term private disability insurance (PDI) payments or reduced PDI and workers' compensation (WC) premiums. PDI covers only 32 percent of private-sector employees, however, and the majority of long-term disability cases are nonoccupational.

We accounted for the potential effects of being laid off on the worker's MOOP costs but ignored any impact of the worker's medical condition on health insurance premiums for either the worker or the employer, even though it might be substantial. We also did not account for certain benefits potentially associated with the implementation of a well-designed RTW program, including reduced risk of staff turnover; a positive impact on staff morale and productivity, the benefits of which could accrue to the employer on a companywide basis; reduced risk of legal liability; and tax credits for accommodation costs. We discuss such benefits below, however, as they could have important implications for the employer's bottom line.

Table 1.
Key assumptions and alternative values used in sensitivity analysis

Description	Value in main analysis	Value for sensitivity analysis
Age at disability onset	50 years	45 years, 55 years
Time away from work	21 weeks	12 weeks, 40 weeks
Time to fill a position	29 calendar days	43 calendar days
Weekly full-time wage earnings	\$710 for ages 25–34, \$870 for ages 35+	20% higher
Total compensation as percentage of wages	143%	n.a.
Costs of workplace accommodations	\$10,063 (over 17 years)	\$0, \$20,126 (over 17 years)
Productivity loss	16.3%	0%
Probability of getting on SSDI	0.45	0.25, 0.75
Family structure and health insurance coverage	25% had access to spouse's employer-sponsored insurance after layoff 25% obtained health insurance through Affordable Care Act exchanges after layoff 50% qualified for Medicaid after layoff	n.a.

Note: The assumptions described in the table are based on previously published research and data, as cited in Bardos et al. (2015).

KEY FINDINGS

The benefits and costs of supporting, or failing to support, RTW affect the employer, employee, and federal government in various ways. Under our baseline assumptions, an employer would incur net costs of \$184,614 from implementing an RTW program and re-employing a worker who experienced the onset of a medical condition rather than replacing that worker, as shown in Figure 1. In Figure 2, positive and negative values indicate benefits and costs, respectively, in Scenario 1 (RTW) versus Scenario 2 (replacement worker). For example, under the RTW

scenario, “compensation to the worker” is a cost to the employer (negative value), whereas “compensation to the replacement” is a benefit (positive value) because the employer would not have to pay a replacement worker; it is a cost avoided. Almost all of the net costs are due to the assumed reduction in productivity of the re-employed worker; the employer’s bottom line is very sensitive to the assumption regarding productivity loss, but not to much else. In contrast, the worker stands to accrue \$688,033 in net benefits from the onset of the medical condition until retirement if re-employed, and the federal government stands to accrue \$225,761 over those years.

Figure 1.
Net benefits and costs of RTW investments

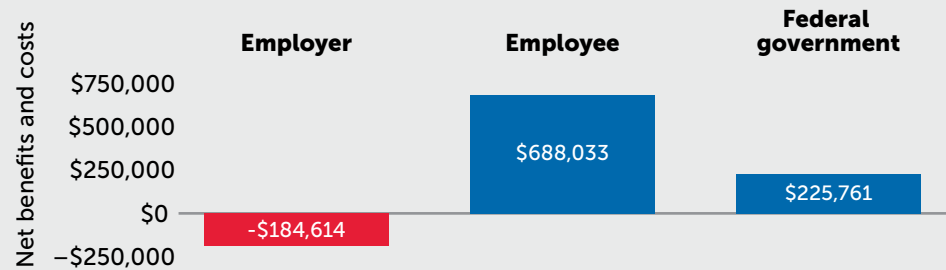
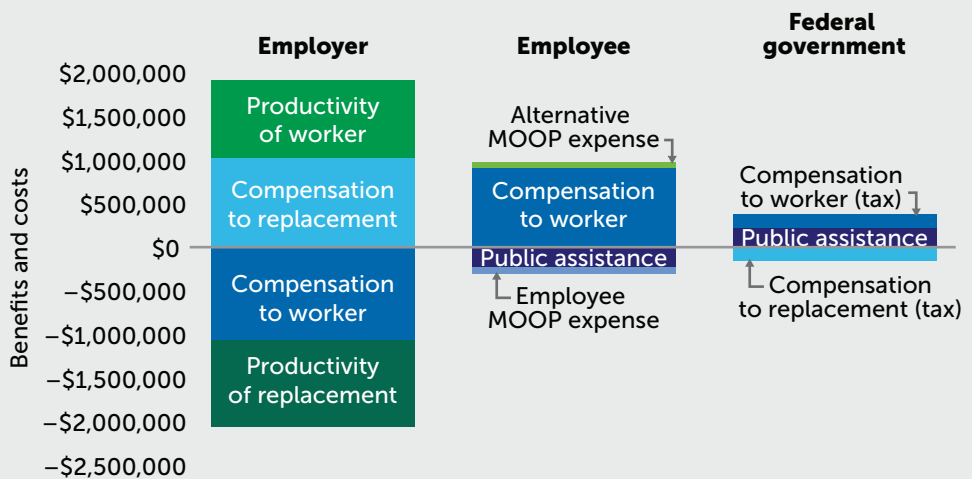


Figure 2.
Comparison of costs and benefits in RTW scenario versus replacement worker scenario



Notes: The cost of workplace accommodations and human resources expenditures on disability management services, along with the hiring of the replacement worker, are included but are too small to be visible in the figure. MOOP = medical out-of-pocket costs.

OTHER CONSIDERATIONS

As mentioned previously, our calculations did not account for additional benefits that could raise the employer's bottom line from net costs to net benefits. For example, a successful RTW program will most likely result in decreased turnover—beyond the retention of the worker in question—because a younger, less-tenured replacement worker is at higher risk of turnover. Reduced turnover means lower recruitment and training costs in the long term.

Furthermore, a well-designed RTW program can raise staff morale and productivity, the benefits of which can accrue to the employer on a companywide basis. Such an impact will be more noticeable in larger companies and companies with higher average productivity and can explain, at least partially, why larger companies and companies with relatively more highly skilled workers are more likely than others to offer PDI benefits and to invest in RTW.

We also did not account for employer tax credits that are available for hiring or accommodating workers with disabilities. At the federal level, employers can take advantage of up to three tax credits, depending on company size, although evidence suggests very few businesses use them.

Finally, the Americans with Disabilities Act (ADA) prohibits discrimination in hiring and firing and wage discrimination on the basis of disability, and it requires employers to provide reasonable accommodations for employees with disabilities. The average costs to employers of complaints brought to the Equal Opportunity Employment Commission under the ADA are considerable and could tip the employer's cost-benefit balance in favor of RTW.

CONCLUSION

From a societal perspective, the benefits of RTW clearly outweigh the costs. Even with the potential additional benefits not included in the analysis, however, investing in RTW will often *not* be in the employer's financial interest. This is especially true for small employers, occupations where the worker's productivity loss might be relatively high, and employers for whom turnover is not very costly. Policies that would shift some of the benefits of RTW from the federal government to employers could, therefore, be warranted. By reducing the costs—particularly of reduced productivity—to employers, such policies could provide economic incentives to seek to retain workers who experience disability onset. Although such subsidies may be expensive, the potential savings to the federal government are likely to be even higher. From this standpoint, a program that compensates employers for reduced productivity might more effectively encourage retention than one that subsidizes the relatively low costs of one-time workplace accommodations.

In summary, our findings highlight both the benefits of RTW from a societal perspective and the significant challenges an employer faces when considering whether to retain an employee who experiences the onset of a medical condition that challenges his or her ability to work. While recent policy proposals have considered these challenges to some extent, many questions remain. Further examination of models that provide employers with economic incentives to retain workers who experience disability onset would be useful to policymakers in their mission to promote successful RTW strategies.

Reference

Bardos, Maura, Hannah Burak, and Yonatan Ben-Shalom. "Assessing the Costs and Benefits of Return-to-Work Programs." Final report submitted to the U.S. Department of Labor, Office of Disability Employment Policy. Washington, DC: Mathematica Policy Research, March 2015.

For more information about the Stay-at-Work/Return-to-Work Policy Collaborative please contact R2WPolicy@mathematica-mpr.com.

