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THE CASE FOR PUBLIC INVESTMENT IN STAY-AT-WORK/RETURN-TO-WORK PROGRAMS

Return-to-Work Policy in Perspective

Millions of hard-working Americans leave the labor force every year, at least temporarily, because of injury or illness.

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Millions of hard-working Americans leave the labor force every year, at least temporarily, because of injury or illness (Hollenbeck 2015). Without steady earnings, these workers and their families often end up in public programs such as Social Security Disability Insurance (SSDI), Supplemental Security Income (SSI), Medicare, and Medicaid. The resulting costs to state and federal governments are steep. But the public sector could help to reduce those costs by adopting strategies to help people stay at or return to work, rather than fall through the cracks of a fragmented system.

THE BENEFITS OUTWEIGH THE COSTS

As previously shown in a study by Bardos et al. (2015), the societal benefits of implementing a successful stay-at-work/return-to-work (SAW/RTW) program clearly outweigh the costs. These benefits accrue primarily to the worker who returns to work after the onset of a long-term disability, rather than being laid off and replaced by a new employee, and to the government (that is, to taxpayers). But employers often face significant challenges when considering whether to retain an employee following an injury or illness. This is especially true for small employers, in instances where the worker's productivity loss is relatively high, and for employers for whom turnover is not very costly.

Despite the clear benefits to workers and taxpayers, no federal agency is in charge of preventing job loss after injury or illness (Christian 2015). And state workforce and vocational rehabilitation (VR) agencies have not traditionally focused on workers who are at risk of losing their jobs because of injury or illness. State-regulated workers' compensation systems provide cash and medical benefits to workers who experience work-related injury or illness. But they do not help the millions of employees whose medical conditions are not work related,

and they often fail to help even those who are covered (Grabell and Berkes 2015; U.S. Department of Labor 2015).

Federal and state governments may not have invested in SAW/RTW services for a couple of reasons. First, they may have limited information about the costs and benefits of doing so. They may be unaware of inexpensive ways to support SAW/RTW, and may not fully recognize the lost tax revenues and increased public assistance spending associated with workers leaving the labor force. Second, the government agencies that incur the bulk of the costs for such workers—the Social Security Administration and the Centers for Medicare & Medicaid Services—are not best positioned to implement SAW/RTW services. Rather, agencies with responsibility for the state workforce, VR, and health and human services are closer to the workers and therefore better positioned to put SAW/RTW into practice.

To better understand how SAW/RTW programs could affect the bottom line of federal and state governments, we compared the costs and benefits of implementing an early-intervention SAW/RTW program at the state level. We gave careful consideration to how sensitive the results are to certain assumptions needed to complete the analysis.

COMPARING TWO SCENARIOS

For our analysis, we defined two competing alternatives:

- 1. SAW/RTW:** In this scenario, the state has a SAW/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.
- 2. No SAW/RTW:** In this scenario, the state has no SAW/RTW program in place, and the worker who experienced disability onset is laid off; the employer hires a new employee, who was previously in a comparable job, to fill the position.

We compared the benefits and costs of these two scenarios from several perspectives: worker, employer, state government, and federal government. The costs and benefits we considered included those associated with workplace accommodations, human resources (including recruiting and training costs for the replacement worker), compensation (including both earnings and nonwage benefits), tax revenues, productivity, medical out-of-pocket costs, and public assistance programs.¹ 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 shows the key assumptions made for this analysis. As in Bardos et al. (2015), we did not conduct the analysis for a specific set of workers,

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
Costs of workplace accommodations	\$10,063 (over 17 years)	\$0, \$20,126 (over 17 years)
Weekly full-time wage earnings	\$710 for ages 25–34, \$870 for ages 35+	20 percent higher
Total compensation as percentage of wages	143 percent	N/A
Tax rates		
Employer payroll taxes (on total compensation)	2.2% state, 5.9% federal	N/A
Employee income, sales, and other taxes ^a	9.4% state, 11.5% federal	N/A
Productivity loss ^b	16.3 percent	0 percent
Probability of:		
Reemployment after layoff	0.50	0.25, 0.75
SSDI benefits	0.45	0.25, 0.75
UI benefits	0.50	N/A
SNAP benefits	0.20	N/A
TANF benefits	0.03	N/A
Federal housing benefits	0.01	N/A
State VR services	0.04	N/A
State/federal split of Medicaid costs	40/60	N/A

Note: The assumptions described in the table are based on previously published research and data. References are available from the authors upon request.

^a Tax rates vary considerably across states; we used the nationwide average effective state and local tax rates for the middle 20 percent of individuals and families.

^b Our measure of productivity loss, based on Goetzel et al. (2004), is a combination of productivity lost due to missed work days (absenteeism) and on-the-job productivity loss (presenteeism).

¹ Public assistance programs include SSDI, SSI, Medicare, Medicaid, Unemployment Insurance, the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), federal housing assistance, VR, and premium subsidies paid under the Affordable Care Act.

such as workers with certain characteristics, in a certain industry and job, and with a certain type and severity of disability. Rather, we based most of our calculations on the average or median worker and performed sensitivity analyses to assess how specific assumptions affected our results.²

We accounted for the potential effects of being laid off on the worker's medical out-of-pocket costs. However, we ignored any impact of the worker's medical condition on health insurance premiums for either the worker or the employer, although admittedly it might be substantial. We also did not account for certain benefits potentially associated with the implementation of a well-designed SAW/RTW program. These include a lower risk of staff turnover; improvements in staff morale and productivity, which could have companywide benefits for the employer; a lower risk of legal liability; and tax credits for accommodation costs.

KEY FINDINGS

State governments could gain substantial net benefits from implementing successful early-intervention SAW/RTW programs, as could the federal government and the affected workers (Figure 1). Under our baseline assumptions, the state government would save about \$83,000 in net benefits for each worker who is retained, rather than replaced, following the onset of long-term disability. About \$71,000 (or 85 percent) of the net benefits to the state would come from higher tax revenues under the SAW/RTW scenario than under the no-SAW/RTW scenario (Table 2). The rest would predominantly be a result of avoiding the costs of Medicaid and unemployment compensation.

The federal government would accrue even more—about \$292,000 in net benefits from the time work stops until the worker's retirement. About 61 percent of these net benefits would be the result of avoiding public assistance costs, with the rest stemming from higher tax revenues under the SAW/RTW scenario. Likewise, the affected worker would gain about \$422,000 in net benefits over those years, primarily due to keeping his or her job and the associated compensation.

Under our baseline assumptions, the employer would incur net costs of about \$185,000—95 percent stemming from the assumed 16.3 percent reduction in productivity of the re-employed worker. However, if the worker instead returns to full productivity, the net costs to the employer would be just \$9,175, but still a loss.³

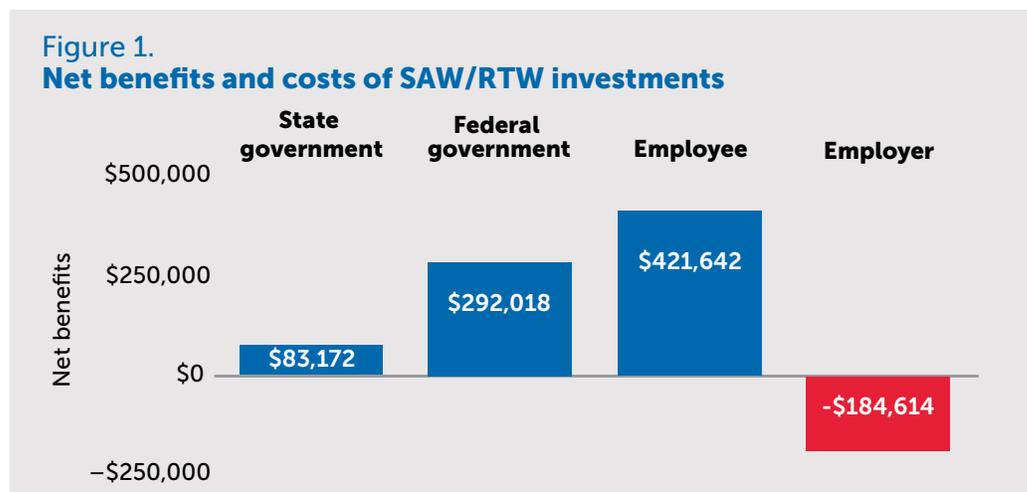
DISCUSSION

As our calculations suggest, states would likely improve the well-being of their workers—as well as their own bottom line—by putting an early-intervention SAW/RTW program in place. Of course, even the most successful program won't be able to help every targeted worker return to work. But suppose that, at a cost of \$10,000 per worker served by the program, only *one in five* workers returns to work. Our calculations suggest the state would still save over \$6,600 per worker, on average.⁴ This scenario effectively moves the \$10,000 cost of workplace accommodations in Table 2 from the employer's column to the state's column. That might be enough to get employers to retain those workers most capable of returning to full productivity.

² Our 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. This is because PDI covers only a third of private-sector employees, and most long-term disability cases are not work related (and thus not covered by WC).

³ Any reduction in productivity is likely to vary considerably by industry and occupation, as well as other factors.

⁴ At a total cost of \$50,000 for five workers, the state stands to save about \$83,000 from a single worker who returns to work. This amounts to \$33,000 in net savings for every five workers served, or \$6,600 per worker served.



However, the net cost to the employer will still be high for workers with reduced productivity—about \$175,000 for workers who return to the assumed 84 percent productivity. States may need to make larger investments, including subsidizing the wages of those with greatly reduced productivity, to sharply increase the number of workers who stay in the labor force. But states may not be willing to make these investments unless the federal government or workers (possibly via a payroll tax) help pay for them.

Launching an effective, publicly funded SAW/RTW program would be a challenging task in any state. To maximize the chances of success,

it's crucial to narrowly target services to those workers most likely to benefit from them and to deliver the services at the right time—preferably while the worker is still employed. Expanding services to workers who will not benefit from them, or who would have received privately financed services anyway, will only increase the costs to the public without increasing the benefits. Most important, the SAW/RTW program should provide services and supports that have been shown to be effective in getting people back to work quickly. Mounting, and rigorous, evidence shows that such effective interventions exist and can be implemented widely (Stapleton et al. 2015).

Table 2
Summary of costs and benefits of SAW/RTW investments, by perspective

Cost and benefits	Perspective			
	State government	Federal government	Employee	Employer
With a SAW/RTW program				
Workplace Accommodations	\$0	\$0	\$0	-\$10,063
Disability Management	\$0	\$0	\$0	-\$4,823
Employee Compensation	\$0	\$0	\$989,133	-\$989,133
Taxes	\$94,500	\$150,146	-\$157,465	-\$87,181
Productivity of Worker	\$0	\$0	\$0	\$900,875
Medical Out-of-Pocket Costs	\$0	\$0	-\$75,870	\$0
Without a SAW/RTW program				
Hiring of Replacement	\$0	\$0	\$0	-\$5,711
Employee Compensation	\$0	\$0	\$247,283	-\$951,226
Taxes	\$23,625	\$37,536	-\$39,366	-\$83,840
Productivity of Replacement Worker	\$0	\$0	\$0	\$1,035,067
Medical Out-of-Pocket Costs	\$0	\$0	-\$58,376	\$0
Public Assistance Programs				
SSDI	\$0	-\$85,743	\$83,278	\$0
SSI	-\$33	-\$8,009	\$7,711	\$0
Medicare	\$0	-\$44,003	\$42,991	\$0
Medicaid	-\$7,765	-\$11,647	\$17,297	\$0
ACA subsidies	\$0	-\$22,459	\$22,459	\$0
Unemployment compensation	-\$3,986	-\$257	\$3,986	\$0
Other (SNAP, TANF, housing, VR)	-\$513	-\$7,290	\$6,893	\$0
Subtotal				
SAW/RTW	\$94,500	\$150,146	\$755,798	-\$190,325
No SAW/RTW	\$11,328	-\$141,872	\$334,156	-\$5,711
Net benefits (+)/costs (-)	\$83,172	\$292,018	\$421,642	-\$184,614

Note: The costs are negative numbers, and the benefits are positive numbers. The numbers might not add exactly due to rounding.

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