

Maximum STD Benefits Duration

A plan-design lever for managing STD lost work time?

April 2010

Background

Employers have a strong interest in limiting the unnecessary duration of a short-term disability event and in returning employees to work. One method for managing potentially long-duration STD cases is to adopt an STD plan design that limits the maximum duration of paid benefits.

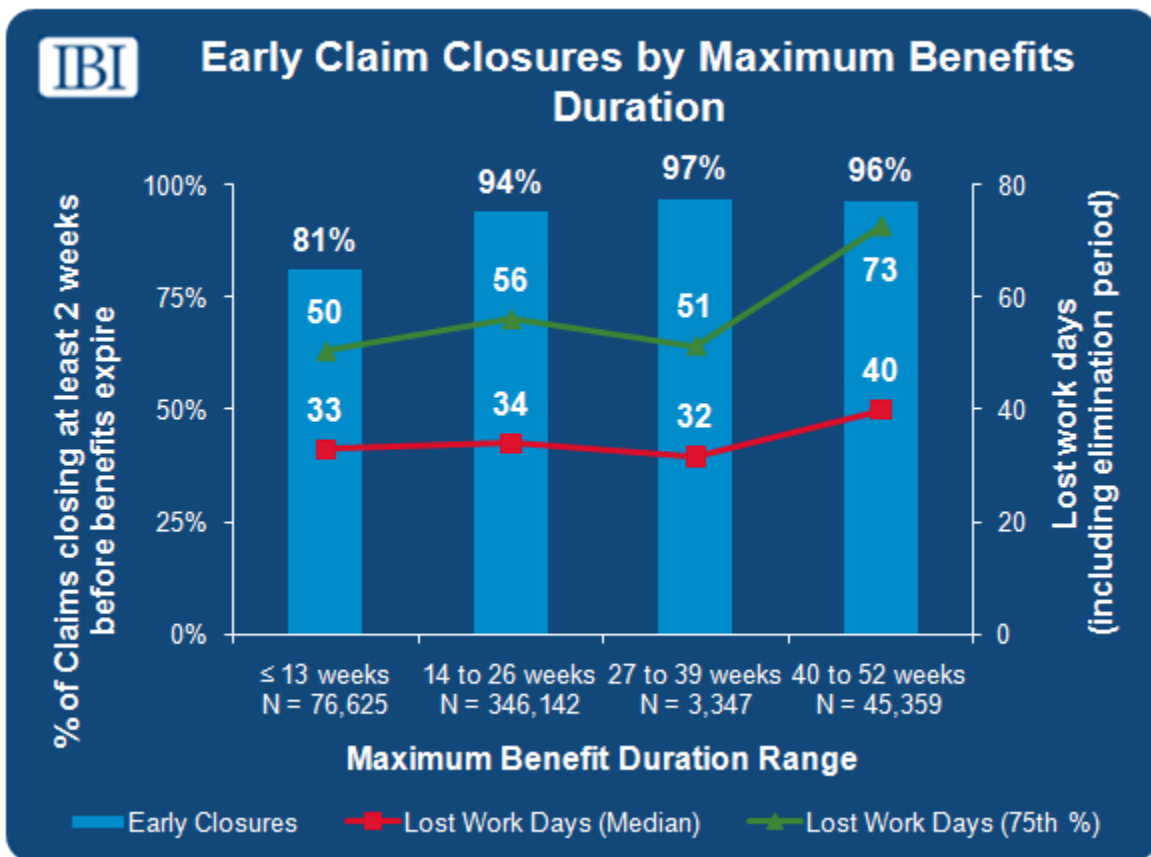
While this appears to be a straightforward strategy for reducing lost work time, wage replacements and lost productivity, it may also have some potential downsides. Terminating benefits and possibly forcing a return to work (RTW) before full recovery from an illness or injury may delay an employee's return to pre-disability performance levels and therefore unnecessarily extend a period of presenteeism (underperformance at work due to lingering illness or injury). Absent employees may not return to work at all because they either file a long-term disability claim or opt to seek employment elsewhere after they fully recover. Particularly with employees who are highly trained, this can be a major problem for an employer. Employees may also simply join the unemployment rolls, putting further strain on public funds and, for many, instilling a disability mindset from which recovery may be difficult.

Employers that consider using maximum duration limits as part of their STD management strategy should first consider how many claims reach those eligibility limits and understand how many lost workdays might be gained by reducing maximum eligibility periods.

Data and Analysis

To answer these questions, IBI analyzed data from its 2008 benchmarking program on durations of STD claims. We include more than 470,000 closed claims that were open for any part of calendar year 2008 and use multivariate regression to adjust our duration estimates by key factors that have an impact on lost time: plan elimination periods, industry, gender, age and disability diagnosis (using major ICD-9 classifications).¹ Because we expect these factors to influence the maximum duration, we control for them in the regression analysis, allowing us to isolate the independent effect of maximum duration limits. We include the elimination period as a control because we know that plans with longer elimination periods tend to have more-severe cases and therefore longer durations.

Figure 1 shows that a majority of STD claims close at least 2 weeks before the maximum period available. This is the case even for plan designs with maximum durations as short as 13 weeks. In fact, more than 80% of these claims were resolved at least 2 weeks before benefits expired while only about 4% of claims with long-term durations -- that is, with benefits available for between 40 and 52 weeks -- reached their eligibility limits.



These results suggest that the duration of benefits eligibility does not contribute greatly to the timing of an employee's termination of benefits. Not only do most claims resolve well before benefits expire but, with the exception of plans that pay benefits for more than 39 weeks, the groups have very similar median lost workdays (we use median rather than mean because the distribution of claims duration is skewed, thus a median better represents the typical claim duration), between 32 and 34 days, including elimination period.² To reflect the productivity impact of lost work time, we count all lost workdays, not just those falling during the period in which benefits are paid.

About half of all claims covered by plan designs that pay benefits for up to 39 weeks closed in just under 7 weeks after a disability incident, while 75% closed within 10 or 11 weeks. The pattern is similar for plan designs with relatively long-term eligibility; half of these claims closed within 8 weeks after a disability incident, and 75% closed in 15 or fewer weeks. For the group with the longest allowed maximum benefits duration -- 40 to 52 weeks -- there is a significantly longer median duration, particularly at the seventy-fifth percentile. In addition to longer durations for these high maximum duration plans, there are fewer claims resolving within three months. We found that between 82% and 85% of claims resolved within 91 days for all other plan types, but only 69% of claims resolved in that same time frame among those with the longest benefits eligibility.

There could be several factors accounting for the lack of early resolution and longer durations. Perhaps individuals in companies with a longer maximum benefits duration plan also have more-generous wage-replacement rates, influencing employee decisions to continue with benefits. These employees may expect to stay out on disability for as long as possible to take advantage of the generous benefits.

Perhaps companies with longer maximum benefits durations pay less attention to RTW strategies and therefore offer little to no case management either on the front end, to resolve cases early, or on the back end, to manage recovery and return employees to work. Perhaps they have no experience with case management and offering transitional work assignments. Without data on these factors, we can only speculate about the reasons for the longer observed durations in the longest benefits group.

For most plan types, while maximum benefits durations may do little to encourage overall shorter STD durations, they may nonetheless limit the wage-replacement liability and lost productivity for some disability cases.

To understand how much "excess" lost work time is attributable to the duration of benefits eligibility, we use the pool of claims with the longest benefits eligibility -- those with maximum duration limits between 40 and 52 weeks (about 10% of all claims) -- to simulate how many lost workdays would be saved if benefits expired at 39, 26 and 13 weeks, respectively, for this group.

Figure 2 shows the durations of paid benefits (excluding the elimination periods) for claims with the longest benefits eligibility. Almost all (97%) claims falling under the long-term maximum duration plan type (40 to 52 weeks) resolved in fewer than 40 weeks. Only a handful of employees (3%) were paid until their benefits expired.

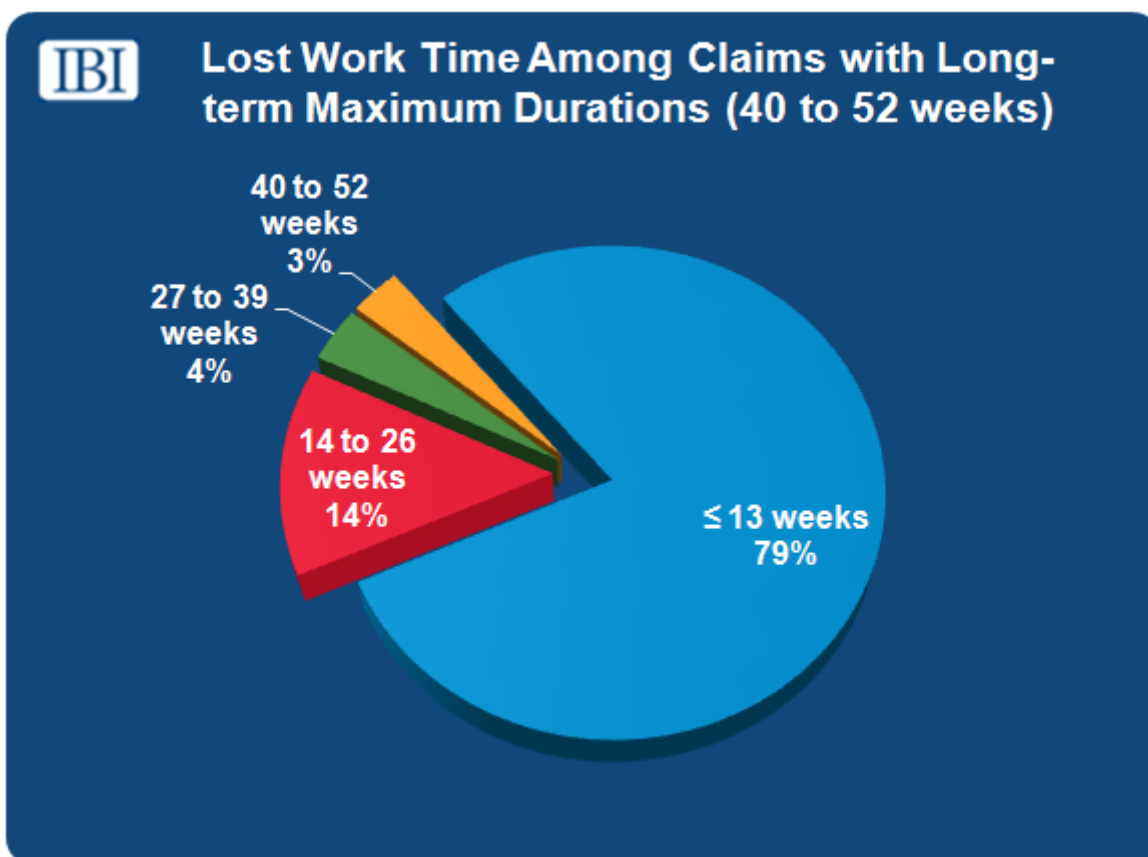
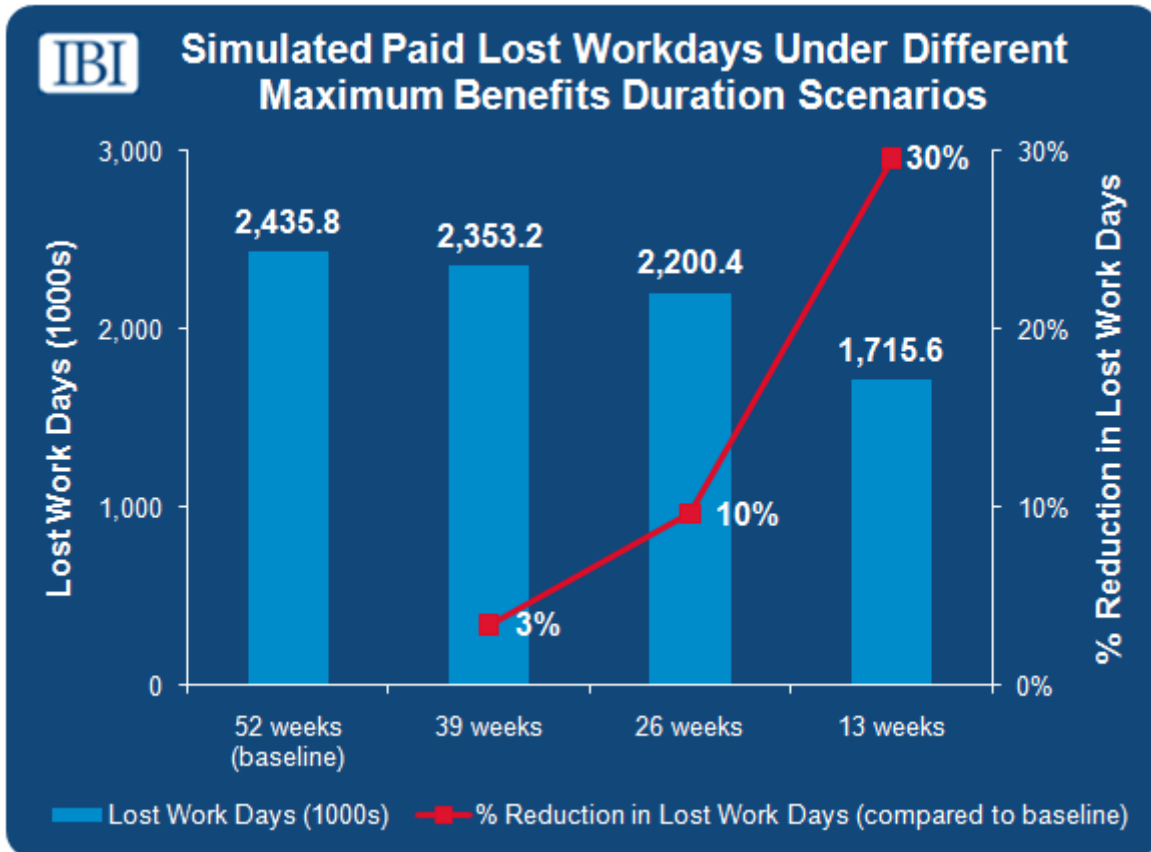


Figure 3 shows that 45,359 STD claims generated 2,435,800 million paid lost workdays (the baseline scenario). If benefits had ended at 39 weeks -- that is, if payment had ceased for the 3% of claims that currently exceed this limit -- total paid lost workdays would have been 2,353,200, about 3.4% less than the baseline amount. Looked at another way, if the claims in Figure 3 all came from a single employer,

reducing the maximum benefits duration by 25% (from 52 to 39 weeks) would have an impact on 3% of its claimants and reduce lost workdays by 3.4%. Adopting a plan design with the most common duration -- up to 26 weeks -- would affect about 7% of its claimants and reduce lost workdays by about 10%.



Commentary

Many factors contribute to the amount of work an employee misses after filing an STD claim. In our analyses, we control for some of these factors directly (such as age, gender, and diagnosis) and some by proxy (e.g., many claims from plan designs with shorter elimination periods are probably of lesser severity than would be observed under plan designs with longer elimination periods).

The results of this analysis suggest that maximum benefits durations are not necessarily an effective plan-design option for managing lost work time in most instances. The real issue employers should be concerned about is effective case management rather than simply eliminating the duration of payments by using a lower maximum duration cap. Employers may wish to consider other methods of managing durations and promoting return to work, such as implementing nurse case management or transitional employment -- these were cited as the most important RTW practices in a recent IBI survey of employers' health and productivity management efforts.³ Nurse case management can educate the worker, his or her supervisor and the physician about the functional demands of the job, RTW opportunities and transitional work.⁴ In this way, nurse case management may encourage workers to expect and look forward to returning to work. A total absence management approach would encourage a focus on preventing absences from becoming short-term disabilities and managing cases for

successful RTW outcomes when they do become an STD claim.

The lack of substantively meaningful differences in lost workdays among three of the four plan types also implies that plan designs with different maximum durations can provide reliable benchmarks for lost workdays in general, bearing in mind that other plan aspects such as elimination period and wage-replacement rates likely also affect claim durations. All else being equal, plans with different maximum durations up to 39 weeks are more comparable for analytic purposes than employers and their benefits partners often assume.

On the other hand, STD plans that permit extended benefits eligibility do in fact incur some additional wage-replacement expense and generate additional employer expense in associated lost-productivity costs when an absent employee works as part of team, is not easily replaced and is responsible for time-sensitive goods or services.⁵ Because it is likely that many employees return to work well before benefits expire (either because they fully recover or because it is financially infeasible for them to miss additional work), for most employers realizing substantial savings in lost time would require dramatic reductions in maximum durations. Further, dramatic reductions in maximum durations could result in employees returning to work before they have recovered if the employer can accommodate them. But, typically job accommodation is desirable when recovery and continued treatment are not hampered.⁶

Although we are not able to control for some factors that likely matter (e.g., our data do not contain consistent information on plan-design dimensions such as wage-replacement rates and maximum weekly benefits), we do have maximum duration, elimination period, age, gender and diagnostic information in these benchmarking data. Future IBI research will explore disability durations across different diagnoses in greater depth than is possible in this Quick Study.

1. Ten insurers and third-party administrators provided IBI with STD claims information for their 2008 books of business. These claims included information on the maximum benefits duration in weeks. For reporting purposes, we have grouped claims with similar durations into the most commonly observed categories of weeks.

2. By "lost workdays," we assume a five-day workweek for a full-time employee. In our sample, 82% of claims had an elimination period of one week or less. Only 4% had an elimination period longer than two weeks. On average, the results in Figure 1 include about six lost workdays during the elimination period.

3. *More Than Health Promotion: How Employers Manage Health and Productivity*. Integrated Benefits Institute, 2010.

4. *Physicians Managing Disability: Opportunities and Constraints*. Integrated Benefits Institute, 2002.

5. Nicholson S, Pauly MV, Polsky D et al. How to present the business case for healthcare quality to employers. *Applied Health Economics & Health Policy*. 2005;4(4):209-18.

6. *Return to Productivity*. Integrated Benefits Institute, 1996.