

Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

ISSUE BRIEF

Date: August 6, 2019

Prepared by: Joyce Manchester

Differences among Types of Sick Leave or Disability Insurance

As Vermont considers a Paid Family Leave bill that might or might not include medical leave, it is important to understand differences among different types of medical leave. In the United States, workers may be covered by one or more of the following types of medical leave:

- Sick leave;
- Temporary disability insurance;
- Short-term disability insurance;
- Long-term disability insurance; and
- Social Security Disability Insurance.

In general, the various types of medical leave provide earnings replacement when the worker is ill, requires medical care, or has a disability that prevents them from working. But many differences arise as well:

- The length of time for which benefits are paid;
- The waiting period with no benefits before the program begins;
- The share of wages replaced by the benefit;
- Who pays for the program; and
- Where the worker obtains the program.

Sick leave is probably most familiar to readers because many larger employers offer sick leave to their employees and because the State of Vermont now requires that all employers offer a minimum of five days per year to any employee who works an average of 18 hours or more per week during a year.¹ Sick leave generally provides payment of 100 percent of wages, requires no waiting period, and can be taken in increments ranging from an hour or less up to multiple weeks.²

Temporary disability insurance (TDI) is often associated with paid family leave plans and offers income protection during a serious illness. Five states have existing TDI programs, and four additional states and Washington, D.C. have enacted programs that will become effective in the next few years. The length of time covered varies by state, ranging from 52 weeks in California to 2 weeks in the program that will take effect in Washington, D.C. in 2020. In Vermont, H.107 proposes to cover 6 weeks for employees who elect to obtain TDI coverage. A waiting period of

¹ Some employees are exempt, including federal employees, certain state employees, certain short-term employees, and individuals under 18 years of age. Employers with five or fewer employees who were employed for an average of 30 hours or more per week were exempt from the law until January 1, 2018.

² Employers are not required to permit sick leave use in increments of less than one hour.

one week before benefits begin is common, and eligibility generally requires documentation from a medical professional. Based on a review of enacted programs, wage replacement is between 50 percent and 90 percent of an individual's average weekly wages.

Short-term disability insurance (STDI) is similar to TDI in many respects. It generally covers an extended absence of two to six months caused by an illness or disability. The waiting period is generally less than 14 days, and wage replacement is up to 80 percent of monthly income. Employers sometimes provide STDI to their workers, and some employees buy individual policies.

Long-term disability insurance (LTD) provides income protection for longer absences of a year or more. The waiting period is often 90 to 180 days, and wage replacement is generally up to 60 percent of monthly income. Some employers offer LTD to their workers, and some employees buy their own policy.

Social Security Disability Insurance (SSDI) is a federal program that provides income insurance to eligible workers who are unable to work for 12 months or more. Workers pay 1.185% of wages to the federal program, matched by a similar payment by the employer. Disabled workers must have sufficient covered work history (see below) as well as careful documentation of the medical or mental health conditions that prevent them from being able to work. The waiting period is five months after onset of the disabling condition. Wage replacement is 90 percent for low levels of average annual earnings, drops to 32 percent of mid-level average annual earnings, and is 15 percent of higher average annual earnings.

A person must have a certain number of "credits" to be entitled to SSDI benefits. Credits are based on the amount of annual earnings in a job covered by Social Security. In 2019, a worker receives one credit for each \$1,360 of earnings, up to the maximum of four credits per year. The number of credits needed for eligibility depends on the age of the worker at the time of disability onset.³ For example, a worker who becomes disabled at age 27 may qualify if he or she has credits for working half the time between age 21 and age 27, or 12 credits. A worker who becomes disabled at age 31 through 42 needs 20 credits; at age 55, 33 credits are needed.

About 10 million people in the United States received SSDI payments in June 2019, and the average benefit was about \$1,100 per month. 24,215 Vermonters or 6.2 percent of the resident population ages 18 to 64 received SSDI benefits in 2017. The average monthly benefit to Vermonters receiving SSDI in 2017 was \$1,126.

The table on the next page contains a quick comparison of the various types of sick leave and disability insurance.

³ For complete information, see Social Security Administration, "Social Security Credits, Number of Credits Needed for Disability Benefits," at <https://www.ssa.gov/planners/credits.html#h3>.

Sick Leave and Disability Insurance: What's the Difference?					
	Sick Leave	Vermont H.107 as Passed by the Senate on May 24, 2019	Short-Term Disability Insurance	Long-Term Disability Insurance	Social Security Disability Insurance
Purpose	Income protection when ill, injured, caring for an ill family member, attending a medical appointment, taking leave related to domestic violence, or caring for a family member whose school or day care is closed for public safety reasons	Income protection during a serious illness	Income protection for extended absence caused by an illness or disability	Income protection for extended absence caused by a serious illness or disability	Income insurance if one is unable to work for 12 months or more
Benefit period	One hour to multiple weeks; Vermont requires employers offer minimum of 5 days per year ¹	Up to 6 weeks if employee obtains voluntary TDI insurance	Often 2-6 months	1 or more years	Usually lifetime
Waiting period once sickness or disability begins	None	One week	Less than 14 days	30-720 days; Often 90 or 180 days	5 months
Coverage amount	100%	90% up to 55% of State average weekly wage; 55% above that	Up to 80% of gross monthly income depending on terms of policy	Up to 60% of gross monthly income depending on terms of policy	Progressive percentage of average income; 90%, 32%, 15%
Average cost	Covered by employer	0.58% of wages up to Social Security maximum (combined contribution for TDI, bonding, and family care) ²	1-3% of annual salary	1-3% of annual salary	1.185% of wages for employee and for employer
Where to obtain	Provided by employer	All Vermont employers (benefits provided through the State Family and Medical Leave Insurance Program)	Typically employer-sponsored; individual policies also available	Typically employer-sponsored; individual policies also available	Federal program for almost all workers; need sufficient credits (varies by age) and must meet disability threshold ³

¹ Employees who work part-time for an employer that uses an accrual rate may not accrue 5 days in a year.

² An employer may elect to pay some or all of the employee's contribution, but is not required to do so.

³ In 2019, a worker earns one credit for each \$1,360 in wages or self-employment income. The maximum number of credits that can be earned in a year is four, representing earnings of \$5,440.

Generally, a worker needs 40 credits, 20 of which were earned in the last 10 years ending in the year in which disability begins. Younger workers may qualify with fewer credits;

see <https://www.ssa.gov/planners/credits.html>.