Temporary Disability Insurance: The California Program

by Margaret M. Dahm*

Of the four State programs of temporary disability insurance, the California plan, established in 1946, is the second oldest; it was the first to provide for participation by private carriers. The article that follows, continuing the Bulletin series on temporary disability insurance, reports on the development and operations of the California program.

The California program of temporary disability insurance pays cash benefits, designed to compensate for part of the wage loss incurred, to insured workers who are unemployed because of disability and who are not entitled to workmen's compensation. The disability may be either physical or mental; if it prevents the worker from doing his customary or most recent work, he may receive benefits under the program.

The California legislation establishing temporary disability insurance was enacted in 1946 as an amendment to the unemployment insurance law. California was preceded only by Rhode Island in providing this type of protection for its workers. Since its enactment, the temporary disability insurance law has been significantly liberalized—both in the maximum benefits payable and in the conditions for receipt of benefits.

In California, the two programs—temporary disability insurance and unemployment insurance—are administered by the State Department of Employment, both cover the same workers, and both, generally, use the same benefit formula, although the maximum weekly payment for disability is now higher than that for unemployment insurance. The law governing temporary disability insurance, unlike that for unemployment insurance, permits the substitution of an approved private plan for State coverage. In June 1951, almost half the 2.8 million workers in the State were covered by private plans.

Collection of contributions began May 21, 1946, and the first benefits were payable December 1, 1946. Through June 30, 1952, the State plan had collected nearly $249 million in contributions from workers and had paid out about $128 million in benefits. Comparable data on collections and payments under private plans are not available.

In 1951—the most recent year for which data are available—California workers paid $77 million in premiums for temporary disability insurance to the State and to approved private plans. Benefits amounting to about $49 million were paid in compensation for 1.9 million weeks of disability; another $6 million was paid in additional benefits to hospitalized claimants.

Coverage

All workers covered by the State unemployment insurance law are covered for disability insurance purposes. Coverage includes workers in firms with a quarterly payroll in excess of $100, except those excluded by the definition of employment—primarily workers in government, in nonprofit religious, charitable, or educational organizations, in domestic service, and in agriculture.

Individuals who depend on spiritual means for healing can elect not to pay taxes and not to receive benefits, or they can have religious practitioners certify to their disability.

Private-Plan Requirements

Employers subject to the law, or a majority of their employees, may request substitution of a private plan for State coverage. The private plans, which may be insured with a recognized insurance carrier or be self-insured by the employer, must meet certain statutory requirements to be accepted as substitutes for the State fund. To be approved, a private plan must be open to all employees in the establishment and must be accepted by the employer and a majority of the employees. Each individual worker must be free to choose between the State plan and the private plan. The private plan must provide rights greater than those under the State plan at no greater cost to the worker. There are other conditions of approval designed to ensure, as far as possible, that the workers covered by private plans will actually receive their benefits.

The approval of a plan or plans, moreover, must not result in a substantial selection of risks adverse to the State fund. This stipulation was intended to counteract the tendency of groups with the lowest relative disability rates, comprising the best insurance risks, to contract out to private plans, leaving the poorest risks for the State fund to insure.

The measure used by California to prevent adverse selection is the proportion of women covered under all plans, currently in effect, written by each insurance company. Women, who make up approximately 30 percent of the total labor force, must represent at least 20 percent of the workers covered by the contracts of each insurance company. Plans that would bring the percentage of women
proved. If through termination of a plan or plans, an insurer’s coverage of women falls below 20 percent, the company below 20 will not be ap-

If the insurer fails to take such action, the agency may withdraw approval of all plans insured by that company.

In June 1951 the law applied to 239,700 employers with 2.6 million workers. Only 36,600 employers—15 percent of the total—had approved private plans, but those plans covered almost half the workers subject to the law. In June 1950 (the last date for which size-of-firm data are available), there were 32,202 approved private plans—10,514 of them in firms with four or fewer workers and 1,647 in firms with 100 or more workers. The large firms, however, included 63 percent of all workers covered by private plans.

Financing

The disability insurance benefits and administrative costs are both financed by an employee tax of 1 percent on the first $3,000 of annual wages. This tax replaced a similar employee tax that had been required under the unemployment insurance law. When private-plan protection has been substituted for that of the State fund, no disability insurance contribution to the State fund is required from workers.

Growth of private plans caused contributions to the State fund to decline each year before 1951. In 1951, contributions to the State fund increased because total covered employment increased at a higher rate than private-plan coverage. The proportion of contributions paid out in benefits increased through 1950 but decreased in 1951 (table 1). Because of more liberal benefit provisions that became effective in January 1952, the benefit expenditures will constitute an even greater proportion of contributions for that year.

The fund is, however, amply solvent. At the end of October 1952, the reserve balance available for payment of benefits was more than $121 million; an additional $117 million in the unemployment trust fund was available, under Federal and State laws, for payment of dis-

Table 1.—California temporary disability insurance: Contributions and benefits under State plan, 1947-51

<table>
<thead>
<tr>
<th>Year</th>
<th>Contributions</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>$51,512,181</td>
<td>$17,732,064</td>
</tr>
<tr>
<td>1948</td>
<td>61,251,701</td>
<td>21,956,251</td>
</tr>
<tr>
<td>1949</td>
<td>59,389,063</td>
<td>23,641,683</td>
</tr>
<tr>
<td>1950</td>
<td>54,498,238</td>
<td>24,717,383</td>
</tr>
<tr>
<td>1951</td>
<td>54,407,980</td>
<td>25,280,785</td>
</tr>
</tbody>
</table>

2 A 1946 amendment to the Federal Unemployment Tax Act permits States to withdraw employee contributions to the unemployment trust fund for the payment of disability benefits. The California temporary disability insurance law permits such withdrawal of contributions paid during 1944 and 1945.

Table 2.—California temporary disability insurance: Contributions and benefits under private plans, assuming 1-percent contribution rate, 1947-51

<table>
<thead>
<tr>
<th>Year</th>
<th>Contributions (estimated)</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>$13,089,124</td>
<td>$4,010,413</td>
</tr>
<tr>
<td>1948</td>
<td>28,062,885</td>
<td>33,566,633</td>
</tr>
<tr>
<td>1950</td>
<td>28,989,265</td>
<td>31,757,663</td>
</tr>
<tr>
<td>1951</td>
<td>28,707,915</td>
<td>29,707,915</td>
</tr>
</tbody>
</table>

Extended Liability Account

When contracting-out under a private plan is permitted, it is necessary to determine the proper allocation of costs for the benefits paid to eligible workers who were not in covered employment at the time their disability began. For allocating such expenditures, including the cost to the State of supervising private plans, represented 7.5 percent of contributions.

Administrative costs would be substantially higher than they are if it were not for the fiscal relationships with unemployment insurance, established under Department of Labor policy. Administration is coordinated with unemployment insurance administration, and various functions—such as determination of employer status, collection of employer reports, maintenance of wage records, and personnel and business management operations—are performed jointly for both programs. Temporary disability insurance is charged only the administrative costs added by that program; the administrative costs are thus less than they would be if the program were administered separately.

The amount spent for added administrative work arising out of the operation of private plans is assessed against such plans, on the basis of covered wages; the assessment is limited to 0.02 percent of such wages. These assessments are made on a fiscal-year basis. For the 1949–50 fiscal year, the assessment was $504,679 or 0.016 percent of wages covered by private plans.

Social Security
costs, the California law provides an “extended liability account.”

The account works in this manner. Benefits to individuals in covered employment when they become disabled are paid from the plan, whether State or private, under which they are currently covered. Benefits to workers not in covered employment—that is in noncovered jobs or unemployed—when their disability begins are paid by the State and charged to the extended liability account. Offsetting the annual total of these charges is an amount equal to the imputed interest on employee contributions for 1944 and 1945 to the unemployment insurance trust fund and for the period from May 21 through November 30, 1946, for contributions for temporary disabiility insurance. Since these contributions, totaling $132.4 million, were paid before disability insurance coverage was divided between the State and private plans, it was decided that the interest on them should accrue to the benefit of the private plans as well as of the State fund. If the amount to be credited is less than the benefits, the deficit is charged to private plans and the State fund in proportion to the wages covered by them. The charges against all plans are limited to 0.03 percent of taxable wages during the year. The private plans’ share is collected from May 21 through November 30, 1946, for contributions for temporary disability insurance. Consequently, the deficit for 1950 amounted to $4.6 million, and the cumulative deficit, including $0.7 million carried over from 1949, was $5.3 million. In the absence of changes in the law, it appears that the extended liability account will show a continually increasing deficit.

**Benefits**

A claimant’s qualification for benefits, his weekly benefit amount, and the maximum total amount of benefits payable during a 1-year period, called the benefit year, are determined on the basis of his earnings in insured employment during a 4-quarter period in the past, called the base period.

Weekly benefits range from one-twentieth to one-twenty-fifth of wages during the base-period quarter of highest earnings, with a minimum of $10 and a maximum of $30. Benefits at the rate of one-seventh of the weekly amount, not rounded, are payable for days of disability after the required waiting period.

To qualify for benefits, a worker must have earned at least $300 in wages during his base period. He must also have earned, in other than his quarter of highest earnings, wages equal to at least one-third his high-quarter wages, although this requirement does not stand if his base-period wages totaled 30 times the maximum weekly benefit amount $900. The amount payable in a benefit year cannot exceed 26 times the weekly benefit amount or one-half the base-period wages, whichever is less; the range is from $150 to $780. In terms of duration, the range is from 12.5 to 26 weeks.

A hospitalized claimant is eligible for hospital benefits of $8 a day for as many as 12 days in a benefit year, in addition to the weekly benefits.

Before the 1951 amendments, a worker’s benefit rights were identical under unemployment insurance and disability insurance, and a valid claim under either program established a benefit year for both. The maximum weekly benefit for temporary disability is now $30, while that for unemployment remains $25. The qualifying provisions for unemployment insurance were changed by a requirement designed to prevent a worker from drawing benefits in two successive benefit years without intervening employment. This requirement does not apply to disability insurance. Consequently, under special circumstances relating to the qualifying earnings, a worker can establish a benefit year for one program but not for the other. Generally, however, benefit years are identical for the two programs.

The law requires a waiting period of seven consecutive days of disability for each continuous period of disability. Two consecutive periods of disability due to the same or a related cause and separated by no more than 14 days are considered as one continuous period of disability. There is no waiting period after the claimant is hospitalized for a day or longer on his doctor’s orders.

**Eligibility Conditions and Disqualifications**

Disability is defined as mental or physical inability to perform the claimant’s regular or customary work. For an individual employed at the

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Table 3.—Selected data on benefits under approved private plans in effect June 30, 1951

<table>
<thead>
<tr>
<th>Item</th>
<th>Plans</th>
<th>Workers under private plans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>36,639</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Weekly benefit amount:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum: $25</td>
<td>4,670</td>
<td>12.7</td>
</tr>
<tr>
<td>25–30</td>
<td>21,802</td>
<td>59.6</td>
</tr>
<tr>
<td>31–39</td>
<td>8,040</td>
<td>21.9</td>
</tr>
<tr>
<td>40</td>
<td>1,596</td>
<td>4.4</td>
</tr>
<tr>
<td>Over 40</td>
<td>531</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Minimum:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$10</td>
<td>31,267</td>
<td>85.5</td>
</tr>
<tr>
<td>10–20</td>
<td>733</td>
<td>2.1</td>
</tr>
<tr>
<td>20 and over</td>
<td>4,581</td>
<td>12.4</td>
</tr>
<tr>
<td><strong>Waiting period:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 days for accident, 7 for sickness</td>
<td>11,756</td>
<td>32.1</td>
</tr>
<tr>
<td>0 days for accident, 7 for sickness</td>
<td>28,101</td>
<td>75.4</td>
</tr>
<tr>
<td>0 days for accident, 0–3 for sickness</td>
<td>1,237</td>
<td>3.4</td>
</tr>
<tr>
<td>Other</td>
<td>45</td>
<td>.1</td>
</tr>
</tbody>
</table>

1 $25 was the State maximum benefit amount in June 1951, when this analysis was made.
time the disability begins, "regular or customary work" is generally considered to be the work he is currently doing. For an individual unemployed when he becomes disabled, regular or customary work is determined on the basis of the particular facts. Disability does not include any condition arising out of pregnancy until 4 weeks after the termination of the pregnancy. The disability itself, not an earlier withdrawal from the labor force for other reasons, must be the cause of the unemployment.

The first claim for benefits must be supported by a certificate from a licensed physician, osteopath, chiropractor, optometrist, dentist, or chiroprapist or, for claimants who depend for healing on spiritual means, from a duly authorized practitioner of a bona fide religious organization. No waiting-period or benefit credit can be given for days of disability more than 7 days before the first day on which the claimant was attended by the certifying doctor.

To receive hospital benefits, in addition to the weekly cash benefits, the claimant must be hospitalized for a day or longer, on instructions from his doctor. A day is 24 hours or a shorter period for which the hospital charges a full daily rate. The need for hospital confinement must be certified by the physician; the time spent in the hospital is verified from hospital records before benefits are paid.

The only specific disqualification in the temporary disability insurance law is for willfully false representation or willful withholding of material facts to obtain disability benefits. The disqualification provided is denial of benefits for the day on which the act occurs and for 6-34 days following.

There are other circumstances in which a claimant with sufficient qualifying wages may be ineligible for disability benefits or may receive a reduced benefit for a week. For example, during a period for which he has been disqualified for unemployment insurance for voluntary leaving, discharge for misconduct, refusal of suitable work, or misrepresentation, a claimant may be denied disability benefits also. Since January 1, 1952, a worker may be paid disability benefits during a period when he is disqualified from receiving unemployment insurance because of a trade dispute, if his disability was the result of an accident or required hospitalization, did not arise out of the dispute, and would have prevented him from working even if the dispute had not occurred.

Some claimants may meet the disability insurance eligibility condition of inability to do their regular or customary work and at the same time meet the unemployment insurance condition of ability to perform suitable work. To prevent such individuals from drawing duplicate benefits, the disability insurance law contains a specific statutory provision making a claimant ineligible for disability benefits for any week with respect to which he received unemployment insurance under any State or Federal unemployment insurance law. He is, of course, also ineligible under the State plan if he is currently covered under an approved private plan.

Cash benefits for the same disability under a State or Federal workmen's compensation or employer's liability law are taken into consideration in determining the amount of benefits payable for a week. The temporary disability insurance system pays only the difference between a claimant's weekly benefit under workmen's compensation and his disability benefit, if the latter is greater. When an illness or injury appears to be work-connected, a workmen's compensation claim must be filed as a condition for receipt of disability benefits. If workmen's compensation benefits are later awarded for a period for which disability benefits have been paid, the claimant must repay the disability program for any benefits that would not have been paid if the workmen's compensation benefits had been paid currently.

Before January 1, 1952, an individual whose employer was paying his wages during an illness was not entitled to benefits unless the wage payment was less than his weekly benefit amount, in which case he could be paid the difference between the wage and the weekly benefit amount. Under the present provisions, benefits plus wage payments can equal 70 percent of the weekly wage earned immediately before the disability.

During the first 9 months of 1951, about 74,800 first claims against the State fund were paid. Approximately 23,700 claims were denied for various reasons. Of these, 20 percent were denied because the claimant was receiving regular wages, and 10 percent because he was considered by the agency to be able to do his regular work. Workmen's compensation payments caused about 1,100 claims to be denied, while in about 1,000 cases the claimant was ruled to be out of the labor market for reasons other than disability. The most frequent reason for denial of a claim, resulting in 44 percent of the denials, was that it should have been filed under a private plan, indicating a weakness in employer informational programs advising their employees regarding their rights under private plans.

Private plans may apply or disregard any of these conditions of eligibility. No data are available on the number of cases denied by private plans for these various reasons. All claimants, whether covered by the State fund or a private plan, have the right to appeal any benefit determination to a referee and to appeal the referee's decision to the appeals board. Employers also may appeal to the referees and the appeals board. During 1950 a total of 1,234 claimants were involved in referees' decisions; 998 were State-plan claimants, and 236 had filed under the private plans. The principal issue—ability to perform regular and customary work—was involved in almost 21 percent of the State-plan cases and 38 percent of the private-plan cases. The issues of withdrawal from the labor market, late filing, and receipt of regular wages were each responsible for 10 percent or more of the State-plan cases. For private-plan cases, the most common issues—after ability to perform regular and customary work—were receipt of regular wages and workmen's compensation questions.

**Administrative and Claims Procedures**

California's disability insurance program is administered by the State Department of Employment. Dis-
ability insurance operations are handled by a division of disability and hospital benefits. In addition, the unemployment insurance central office personnel concerned with wage records, tabulating, research and statistics, legal and office services, fiscal management, and personnel services perform services for the disability insurance program as well as for the unemployment insurance and employment service programs. The same appeals machinery is used for both disability insurance and unemployment insurance.

Claims for disability benefits under the State plan are handled by a central office in Sacramento and by 17 district offices throughout the State. The agency staff includes three doctors—a medical director and two assistant medical directors. They give the claims examiners technical training with regard to disabling conditions and on the probable duration of disability due to various causes. They also furnish a technical review of agency actions on medical questions.

All claims are filed by mail. The first claim for a spell of disability is filed with the central office; it is acceptable only if the claimant has been unemployed and disabled for eight consecutive days (or confined to a hospital for at least one day) and has been under the care of a physician or practitioner during part of the period. The claim must be accompanied by a physician's certificate supporting the fact of disability and estimating its probable duration.

The central office determines if the claim has been filed within the proper time limit and if the certification is valid. It also determines the weekly benefit amount and whether the claimant has the qualifying base-period wages. It assigns the claim to the appropriate district office. The district office makes the other determinations of eligibility and pays the benefits. Continued claims are filed directly with the district office; they need to be accompanied by a medical certificate only on the request of the agency.

Before allowing a first claim, or during the course of a compensable disability, the district office may contact the claimant, his physician, or his employer for additional information.

Claimants may be referred to independent doctors for medical examination, or their disability may be verified through unscheduled visits by the regular claims examiners, if some question has arisen. The number of such visits represents 10 percent of the spells of disability claimed.

Workers covered under private plans file their claims either with the employer or with the insurance company. The employer or the insurer must report to the State agency when a first claim is filed and when a spell of disability terminates. These notices are necessary for administration of the program to ensure that the worker receives at least the benefits he would have received from the State and to provide a check against duplication of benefits. Furthermore, a first claim for disability filed under a private plan may establish an unemployment insurance benefit year.

Comparison of State Plan and Private Plans

Approved private plans must provide rights at least equal to the statutory rights on all points and greater than them on at least one. Table 3 shows the major provisions of the 36,639 private plans in effect on June 30, 1951, covering 1,283,400 workers.

As a result of both higher maximum benefit provisions and higher earnings among claimants, the average weekly benefit in 1951 was higher under private plans than under the State plan—$29.44 compared with $22.87. Total benefits paid in 1951 amounted to $25.2 million under the State plan and to $29.8 million under private plans. Even though total private-plan benefits exceeded those of the State fund, the State paid out about 75 cents in benefits for each dollar collected in contributions, compared with 70 cents on the dollar paid by private plans.

In 1951, private-plan beneficiaries received, on the average, 6 weeks of benefits per spell of disability, and State-plan beneficiaries received 10.1 weeks per spell. Claimants who drew all the benefits to which they were entitled represented only 9 percent of the beneficiaries under the private plans and 20 percent of those under the State plan. The private-plan claimants who exhausted their benefit rights drew benefits for 23.1 weeks, only slightly longer than the 22.8 weeks drawn by State-plan claimants who exhausted their rights.

The differences in these figures are due to differences both in benefit provisions and in characteristics of the claimant group. With respect to periods of disability that terminated between April 1, 1949, and March 31, 1950, information from a special study is available concerning the benefits that would have been paid to the private-plan claimants on the basis of the statutory benefit provisions. These data permit a comparison of experience that minimizes differences due to benefit provisions. To permit a more satisfactory comparison of the characteristics of claimants, State-plan data have been limited to employed workers.

Employed workers experienced 156,000 compensated periods of disability terminating during the 12 months ended March 1950; the State paid for 67,600 periods and private plans for 88,400. These spells of disability lasted a total of 1.2 million compensated weeks, with the State paying for 603,900 and private plans for 546,200 weeks. Thus, private-plan claimants received an average of 6.2 weeks of benefits per spell, while State-plan claimants received 9.8 weeks per spell. These private-plan figures include 13,400 periods and 70,600 weeks of benefits that would not have been paid under the State formula for one of several reasons—insufficient base-period wages, exhaustion of benefit rights, or too brief a disability. Elimination of such spells would have had practically no effect on the length of the average compensated period under private plans, raising it only to 6.3 weeks. The average weekly benefit amount paid by the State was $22.87, while that paid by private plans was $28.82. Not all this difference was attributable to more liberal private-plan provisions. Even if the State formula had been used, the average paid to private-plan claimants would have been $24.11 because their earnings are higher.

If private-plan experience were limited to the periods and amounts that would have been paid under the

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State formula, employed workers under both private plans and the State plan would have been paid for 142,700 terminated periods of disability between April 1, 1949, and March 31, 1950. Forty percent of these periods of disability were claimed by women. More State-plan claimants than private-plan claimants were women. Under the State plan, the number of periods of disability was almost equally divided, with 48 percent paid to women and 52 percent to men. Under the private plans, however, only one-third of the periods of disability were paid to women claimants. Similar differences in the proportion of men and women claimants exist with respect to the number of weeks paid and the total amount of benefits.

Private-plan claimants were also somewhat younger than State-plan claimants. Claimants under age 30 represented 20 percent of the number under private plans but only 17 percent of those under the State plan; claimants aged 45 and over represented 41 percent of private-plan and 46 percent of State-plan claimants. The age differences were greater with respect to women. Those under age 30 accounted for 26 percent of private-plan and only 19 percent of State-plan claimants, while women aged 45 and over represented 29 percent and 38 percent, respectively.

Private-plan claimants had proportionately fewer of the more serious disabilities, such as tuberculosis, malignancies, heart disease, and compound fractures. For men, disabilities with an average duration of 13 weeks or longer made up 13 percent of the private-plan cases that would have been compensated under the State formula and 23 percent of the State-plan cases. Among women, these more serious disabilities represented 9 percent of the respective totals.

Thus, the available data indicate that private-plan claimants are younger than State-plan claimants and that they include a smaller proportion of women, their disabilities are less frequently of the most serious categories, and their earnings are higher. Other data on the extent to which workers file unemployment insurance and temporary disability insurance claims in the same benefit year show that private-plan claimants experience less unemployment than State-plan claimants. All these variations taken together indicate that the over-all effect of the private plans may be some adverse selection against the State fund.

Attitudes Toward the Program

Opinions and attitudes of physicians, employers, and workers toward the temporary disability insurance program are vitally important, since the cooperation of these groups is essential to the program's success.

In general, these groups in California agree that it is working smoothly.

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