Employers and Disability Insurance: Evidence from Individual Tax Returns

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Abstract

We merge the universe of 2000-2018 W-2 earnings records to the universe of 2000-2018 SSA-1099 forms to estimate the Social Security Disability Insurance (SSDI) claiming rate of each employer’s employees. We document large variation across industries in claiming rates. We also show that SSDI claiming rates correlate with characteristics of firms that signal firm quality. There is a positive association between firm size and employee SSDI claiming, except for the largest firms, which have lower employee claiming rates. In addition, we document a negative association between employee wages and SSDI claiming. In future work, we will estimate the relationship between employer and employee wage premiums and SSDI claiming.
1 Introduction

Despite small declines in recent years, the number of U.S. disability insurance (DI) beneficiaries has risen dramatically over the last several decades. In 2017, 8.7 million workers were receiving Social Security Disability Insurance (SSDI) benefits, up from 4.5 million in 1997 (Social Security Administration, 2017). Although the role that various factors, including demographics, the economy, and social security policy have played in this increase is subject to debate (Autor and Duggan, 2006; Autor, 2011; Liebman, 2015), there is some consensus that the U.S. should consider policies that can make its DI system fiscally sustainable over the long run. Several analysts have proposed that policymakers try to limit the flow of workers into DI by incentivizing employers to employ workers who would otherwise be eligible to receive DI benefits (Autor and Duggan, 2010; Autor, 2011; Burkhauser and Daly, 2011). Such proposals are based on the intuition that employers play an important role in their employees’ claiming behavior, either through working conditions that impact employee health or through their choice of whether to accommodate employees who are potentially eligible for DI benefits. However, there exists little empirical evidence on the impact that employers have on claiming behavior or even the distribution of DI claims across employers and industries.

In this paper, we provide new evidence on the distribution of SSDI claims across employers and industries. Our research makes use of the universe of individual tax returns for the period 2000-2018, which allows us to develop measures of the incidence of SSDI claims—by which we mean benefits received (as opposed to applications)—for all U.S. firms and industries. We begin by analyzing cross-industry heterogeneity in the rate at which employees transition to SSDI receipt. Using a standard industry classification, we categorize all firms in the U.S. economy into industries at three different levels of granularity. Connecting individuals’ tax returns over time, we estimate the share of employees in each industry who transition to SSDI receipt over a 4-year time window following a year in which they were employed. We find that in the industry with the highest SSDI transition rate for the 2014-2018 period, Mining
employees are almost 2.5 times as likely to transition to SSDI receipt then in the industry with the lowest transition rate for the same period, Educational Services (0.0.75%). Naturally, much of this cross-industry variation is likely explained by employees in different industries having different individual-level characteristics that make them more or less likely to receive SSDI benefits. In other words, it could be selection of workers into industries rather than anything about the industries or employers’ behavior that explain these differences. We find that substantial (in some cases even larger) differences exist across industries when we control for employee age and gender. Furthermore, we find substantial (and in some cases even larger) differences in SSDI claiming rates across narrower industries within broad industry groups. For example, the broad industry category of “Manufacturing” has one of the highest SSDI claiming rates (1.50%), but within “Manufacturing,” “Food Manufacturing” has an employee claiming rate (1.60%) that is over twice as high as the SSDI claiming rate for “Computer and Electronic Product Manufacturing” (0.75%). Within “Computer and Electronic Product Manufacturing,” “Audio and Video Equipment Manufacturing” has a rate (0.89%) that is 60% higher than the rate for “Computer and Peripheral Equipment Manufacturing” (0.57%).

In further analyses, we show that cross-industry variation is persistent over time. We show that transition rates across three non-overlapping time periods (2004-2008, 2009-2013, and 2014-2018) are highly correlated, suggesting that SSDI claiming rates are stable characteristics of industries. We also find evidence that aspects of firm quality correlate with SSDI claiming rates. We document a broad positive association between firm size and claiming rates (except for the very largest firms, which have lower claiming rates) and a negative association between employee wages and claiming rates. These correlations suggest that firm quality may play an important role driving SSDI claiming rates. In future work, we will estimate employer and employee wage premiums using a standard decomposition framework relying on cross-firm movers and relate these wage premiums to claiming rates.

Our research contributes to the literature on disability insurance programs in the U.S. and
other countries by analyzing claiming behavior from the perspective of employers. Most of
the existing literature studies the causes of SSDI applications (e.g., Autor, Maestas, Mullen
and Strand, 2015; Maestas, Mullen and Strand, 2015, 2018) and responses to SSDI receipt
(e.g., Maestas, Mullen and Strand, 2013; French and Song, 2014; Gelber, Moore and Strand,
2017) from the perspective of individual workers. A smaller literature exists on employer
responses to disability policies that aimed to increase the employment of individuals with
disabilities (Acemoglu and Angrist, 2001) and decrease the flow of employees to DI programs
(De Groot and Koning, 2016; Hawkins and Simola, 2018; Prinz and Ravesteijn, 2019). Our
main contribution to this literature is a systematic examination of cross-employer and cross-
industry variation in SSDI claiming rates. We are able to document this variation because
we use detailed employer-employee data on the universe of U.S. employees and can relate
employer-employee relationships to subsequent SSDI receipt, as reported on U.S. tax returns.
The only existing paper to our knowledge that does so using data from the U.S. is Stapleton,
Mann, Singh and Song (2017).\footnote{The only other study to our knowledge using data from
another country is Maestas, Prinz and Ravesteijn (2018) which documents cross-industry and
cross-employer differences in DI claiming and responses to health shocks in the Netherlands.}
Using data from the Social Security Administration (SSA)\footnote{The only existing paper to
our knowledge that uses tax records from the U.S. Treasury to study SSDI is Friedman, Kellogg,
Lurie and Mogstad (2018), a study of geographic differences in SSDI rates among
younger workers.}, they document variation in SSDI claiming by firm size and discuss implications
of a hypothetical experience rating system for the distribution of Social Security payroll taxes across
firms by size. We provide results by firm size, but go beyond analyzing claiming rates by firm
size, and examine claiming rates by industry and variation across firms within industries.

The remainder of this paper proceeds as follows. Section 2 describes the tax return data
that we use for our research and the construction of our measures of employer-level SSDI
claiming rates. Section 3 presents our results on cross-industry and cross-employer variation
in claiming rates. Section 4 concludes with a discussion of our findings, limitations, and
future directions.
2 Estimating SSDI Receipt from Tax Returns

2.1 Linking W-2 and SSA-1099 Forms

We use individual tax return data to estimate the distribution of SSDI claiming across industries and employers. Employee-employer relationships are identified from W-2 (Wage and Tax Statement) forms. Employers are required to report wage and salary information for each employee using Internal Revenue Service (IRS) form W-2. The employer is identified on the W-2 by their Employer Identification Number (EIN). SSDI receipt by an individual is reported on form SSA-1099 (Social Security Benefit Statement). To define entry into SSDI for a worker in year $t$, we match year $t$ employment records with year $t + 4$ SSDI receipt. We do this for three non-overlapping time periods: employment in 2004 and SSDI receipt in 2008, employment in 2009 and SSDI receipt in 2013, and employment in 2014 and SSDI receipt in 2018. To calculate employer-level SSDI incidence, we count the number of employees in year $t$ employed by an employer (identified by the EIN) and the number of these employees who receive SSDI payments in year $t + 4$, the ratio of which gives the firm-level SSDI incidence rate for year $t$.

These estimates have two relatively minor limitations. First, the 1099-SSA forms do not allow us to distinguish individuals who receive benefits because they are disabled workers from individuals who receive benefits as spouses of disabled workers or as children of disabled workers. Disabled workers are 85% of SSDI beneficiaries, while spouses of disabled workers are 1% and children of disabled workers are 14% (Social Security Administration, 2019). Although the number of dependent spouses and children is sizeable, they have little effect on the SSDI incidence rate since dependents qualify only because they have a disabled spouse or parent, who is already counted in the incidence rate (if employed in year $t$). Second, we use the Employer Identification Number (EIN) to define individual employers, but this is not the only possible employer definition. Firms defined by EIN’s are more aggregated than establishments but less aggregated than firms defined by ownership structure, since larger
firms sometimes file taxes at the EIN level rather than the parent firm level. As Song et al. (2019) discuss in more detail, EIN is typically used to define firms in the literature.

### 2.2 Industry Classification

Our analysis of cross-industry variation in SSDI claiming rates uses the standard North American Industry Classification System (NAICS) published by the Office of Management and Budget (Office of Management and Budget, 2017). The NAICS has five levels of classification. For example, within the level-1 classification “Manufacturing,” some of the level-2 industries are “Food Manufacturing,” “Beverage and Tobacco Manufacturing,” “Apparel Manufacturing,” “Chemical Manufacturing,” and “Computer and Electronic Product Manufacturing.” Within the level-2 industry of “Computer and Electronic Product Manufacturing,” some of the level-3 industries are “Communications Equipment Manufacturing,” “Computer and Peripheral Equipment Manufacturing,” “Audio and Video Equipment Manufacturing,” and “Manufacturing and Reproducing Magnetic and Optical Media.” Within the level-3 industry “Communications Equipment Manufacturing,” the level-4 industries are “Telephone Apparatus Manufacturing” and “Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing.” The fifth, lowest level of this classification disaggregates level-4 industries even further. For example, “334412 Bare Printed Circuit Board Manufacturing,” “334413 Semiconductor and Related Device Manufacturing,” and “334416 Capacitor, Resistor, Coil, Transformer, and Other Inductor Manufacturing” are all six-digit NAICS codes within “Semiconductor and Other Electronic Component Manufacturing.” In our analysis, we use the three highest levels of NAICS classification.

Table 1 shows the distribution of employees and employers across level-1 industries for each of the time periods we analyze. The first four columns of the table show the total number of employees, the percent of employees, the total number of employers, and the percent of employers who fall into each level-1 industry in 2004. The subsequent columns show the same four measures in 2009 and 2014, respectively.
3 Distribution of SSDI Claiming

3.1 Cross-Industry Variation: Level-1 Industries

We begin by analyzing cross-industry heterogeneity in the rate at which employees transition to SSDI. Figure 1 shows SSDI transition rates by level-1 industry for each of the three time periods 2004-2008, 2009-2013, and 2014-2018. Industries are ranked by the 2004-2008 SSDI claiming rates. There is substantial variation across industries in SSDI claiming rates. Claiming rates are the highest in Mining (1.82% in 2014-2018), Administrative and Support and Waste Management Services (1.49%), and Transportation (1.77%). Claiming rates are lowest in Information (0.78% in 2014-2018), Arts (0.77%), and Educational Services (0.75%). The figure also shows that across most industries, 2009 was a peak year relative to the earlier period 2004 and the later period 2014. This is potentially an effect of the Great Recession; workers employed in 2009 were more likely to experience subsequent job loss; other research finds that many of these workers applied for and were awarded SSDI benefits in the years following the recession (see e.g., Maestas, Mullen and Strand, 2015, 2018). Furthermore, across many industries SSDI claiming rates tend to be lower in 2014 than in the early period, 2004. This is likely a consequence of SSA’s internal reforms of its procedures for adjudicating appellate claims, which are associated with a large reduction in the SSDI award rate (for a discussion see Maestas, Mullen and Strand, 2018). Although the reforms were applied system-wide, the variation across industries in the 2014 rate relative to the earlier rates suggests that these reforms have affected workers in some industries more than others.

Naturally, there is likely to be substantial variation in the employee composition of various industries, which could explain cross-industry variation in SSDI claiming. For example, we would expect higher SSDI claiming rates in industries with relatively many older workers because the likelihood of disability onset rises with age and also because the SSDI award criteria favor older workers in medical-vocational determinations. Similarly, SSDI claiming rates can vary by gender due to gender differences in insured status. Historically, fewer
women than men had long enough work histories to be insured for SSDI benefits, but this gap has been closing over time. Figure 2 shows heterogeneity in SSDI claiming across level-1 industries accounting for differences in age and gender composition using data for 2014-2018. For the most part, the same industries have high and low conditional and unconditional SSDI claiming rates. There are exceptions: Utilities, which has a relatively older workforce, has a much lower SSDI claiming rate conditional on age and gender than it does unconditionally. On the other hand, Accommodation and Food Services and Retail Trade have much higher conditional than unconditional SSDI rates, owing to the presence of relatively many younger and female workers.

### 3.2 Cross-Industry Variation: Narrower Industries

We also find substantial variation in SSDI claiming rates across narrower industries. Within certain level-1 industries, claiming rates vary even more across level-2 industries than across level-1 industries. Figures 3-6 show the distribution of SSDI claiming rates across level-2 industries within each level-1 industry for each base year, 2004, 2009 and 2014. For example, Figure 3 shows that within “Agriculture,” which has an overall claiming rate of 1.07% in 2014-2018, variation ranges from 0.88% in “Fishing, Hunting, and Trapping” to 2.14% in “Forestry and Logging.” Similarly, Figure 5 shows that within “Manufacturing,” a level-1 industry with a high overall rate (1.50% in 2014-2018) of SSDI claiming, claiming rates vary from 0.75% in “Computer and Electronic Product Manufacturing” to 2.39% in “Textile Mills.” Another example of wide variation is “Retail Trade”: while the overall rate is 1.10%, Figure 6 shows that “Electronics and Appliance Stores” have a low rate of 0.63% while “Gasoline Stations” have a high rate of 1.60%.

Where possible, we also consider level-3 industries, and document substantial variation across level-3 industries within the same level-2 industry in Figures 7-11. For example, Figure 7 shows that within “Ambulatory Health Care Services” the offices of dentists (0.64%) and physicians (0.87%) have much lower rates of claiming that “Home Health Care Services”
Another example is “Transportation Equipment Manufacturing” in Figure 11: “Aerospace Product and Parts Manufacturing” has a claiming rate of 1.28% on the low end, while “Ship and Boat Building” has a claiming rate of 1.97% on the high end.

To assess the persistence of cross-industry variation, Figure 12 plots 2014-2018 claiming rates against 2004-2008 claiming rates for each of the three levels of industry definitions used. In each of these plots, one dot is one industry. It appears that over a 10-year period, cross-industry heterogeneity is relatively persistent. The correlation coefficient between the two periods is 0.86 for level-1 industries, 0.89 for level-2 industries, and 0.86 for level-3 industries.

### 3.3 Heterogeneity Across Firms

In this section, we explore the degree to which SSDI claiming rates vary across firms within industries on the basis of characteristics that are sometimes associated with firm quality. One such characteristic is firm size. As described earlier, one way firms may affect SSDI claiming is by the degree to which they provide accommodations to workers who experience disability onsets. The Americans with Disabilities Act (ADA) requires firms with 15 or more employees to provide “reasonable” accommodations to their employees with disabilities. The smallest firms are excluded from the accommodation requirement because small firms may be less able to bear the costs associated with providing reasonable accommodations. One might expect that as firms grow in size, their added scale better enables them to pool risks and manage accommodation costs through intra-firm cross-subsidization. However, we find this is only partially the case. In Figure 13 we consider heterogeneity by firm size using data for the 2014-2018 period. In most industries there is a marked positive relationship between firm size and SSDI claiming rates, though in many cases the largest firms have lower claiming rates than mid-sized firms. For example in Manufacturing, claiming rates increase with size up to a 1000 employees: 1.30% for firms with 1 to 9 employees, 1.38% for 10-24 employees, 1.44% for 25-49 employees, 1.48% for 50-99 employees, 1.55% for 10-249 employees, 1.60% for 250-499 employees, 1.63% for 500-999 employees); but are lower for the largest firms: 1.48%
for firms with 1000+ employees. Some other industries, such as Transportation (1.87% for firms with 1 to 9 employees, 1.98% for 10-24 employees, 2.12% for 25-49 employees, 2.18% for 50-99 employees, 2.16% for 10-249 employees, 2.13% for 250-499 employees, 2.09% for 500-999 employees, 1.52% for 1000+ employees) exhibit similar patterns. In some other industries, for example Finance, the largest firms with 1000+ employees have the highest claiming rates.

Finally, in Figure 14 we show claiming rates at different parts of the wage distribution using data for the 2014-2018 period. Since wages reflect skill levels and occupation differences, we would expect a negative correlation between wages and SSDI claiming. This is because skill and other measures of socioeconomic status are correlated with health, but also because low-skilled workers are favored in the disability award criteria for medical-vocational determinations. The rationale for their being prioritized for SSDI benefits is that low-skilled workers who become disabled are unlikely to have remaining skills that would transfer to other low-skilled occupations. Consistent with this, in every industry, there is a strong negative relationship between earnings and claiming rates. For example, in Manufacturing, the claiming rate is 2.25% between the 5th and 10th wage percentiles, 1.80% between the 10th and 25th percentiles, but only 0.46% between the 75th and 90th percentiles and 0.30% between the 90th and 95th percentiles. Similarly, in Wholesale Trade, the claiming rate is 1.70% between the 5th and 10th wage percentiles, 1.31% between the 10th and 25th percentiles, but only 0.36% between the 75th and 90th percentiles and 0.26% between the 90th and 95th percentiles.

In future work, we will examine the association between employer and employee wage premiums and SSDI claiming rates. Using employees who move between employers over time, we will estimate two-way fixed effects model standard in the labor economics literature concerned with explaining variation in wages (Abowd, Kramarz and Margolis, 1999; Card, Heining and Kline, 2013; Card, Cardoso and Kline, 2016; Card, Cardoso, Heining and Kline, 2017). These analyses will improve our understanding of the relationship between firm “qual-
ity” and SSDI claiming because they will allow us to decompose wages into employer-specific and employee-specific components and relate claiming with these specific components.

4 Conclusion

In this paper, we have taken a first step towards describing variation in SSDI claiming rates across employers, focusing on cross-industry heterogeneity. We find substantial cross-industry heterogeneity in claiming rates both across broadly and narrowly defined industries. This heterogeneity is persistent over different time periods. We also find that larger firms, except the largest, have higher SSDI claiming rates in most industries. Finally, we also found a strong negative relationship between wages and SSDI claiming in all industries.

Our results suggest several natural directions for research. One such direction is understanding the extent to which selection of different employees into different industries versus working conditions versus firm policies explain the heterogeneity we documented. Another direction that we will pursue in future work is understanding within-industry, cross-firm heterogeneity. Finally, our future work will examine the relationship between employer and employee wage premiums and SSDI claiming behavior. These analyses, will allow us to relate claiming behavior to employer-specific and employee-specific components of wages and better understand how variation in benefit takeup relates to earnings variation.

References


## Table 1: Distribution of Employees and Employers Across Level-1 Industries

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<td>0.24</td>
<td>4,772</td>
<td>0.09</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>5,213,111</td>
<td>2.72</td>
<td>230,377</td>
<td>4.80</td>
<td>4,963,494</td>
<td>2.69</td>
<td>226,272</td>
<td>4.42</td>
<td>5,505,432</td>
<td>2.64</td>
<td>224,490</td>
<td>4.22</td>
</tr>
</tbody>
</table>

**Note:** Table shows the distribution of employees and employers across level-1 industries for 2004, 2009, and 2014 based on W-2 forms.
Figure 1: Disability rate by industry - level 1

Figure 2: Disability rate by industry - level 1
Figure 3: Disability rate by industry - level 2
Figure 4: Disability rate by industry - level 2
Figure 7: Disability rate by industry - level 3
Figure 8: Disability rate by industry - level 3
Figure 9: Disability rate by industry - level 3
Figure 10: Disability rate by industry - level 3
Figure 11: Disability rate by industry - level 3
Figure 12: Disability rate by industry over time

(a) Level-1 industries

(b) Level-2 industries

(c) Level-3 industries
Figure 13: Disability rate by industry and firm size
Figure 14: Disability rate by industry and wage quantile