January 23, 2015

Options to Manage the Growth in the Disability Insurance Rolls

Social Security Disability Insurance (SSDI) provides benefits to nonelderly workers with certain disabilities and to their eligible dependents. As in Old-Age and Survivors Insurance (OASI)—Social Security's retirement program—benefits are based on a worker's past earnings. In December 2014, SSDI provided disability insurance to more than 151 million people and paid benefits to about 9 million disabled workers and 2 million of their spouses and children.

To qualify, individuals must have worked and paid Social Security taxes for a certain number of years and be unable to engage in substantial gainful activity (SGA) due to a severe mental or physical impairment that is expected to last for at least one year or result in death. In 2015, the monthly SGA earnings limit for most individuals is $1,090. In general, disabled workers must be unable to do any kind of substantial work, taking into account age, education, and work experience.

In December 2014, the average benefit for a disabled worker was $1,165. For spouses and children of disabled workers, the monthly benefit averaged $315 and $349, respectively. Disabled workers and certain dependents are also eligible for Medicare after a two-year waiting period.

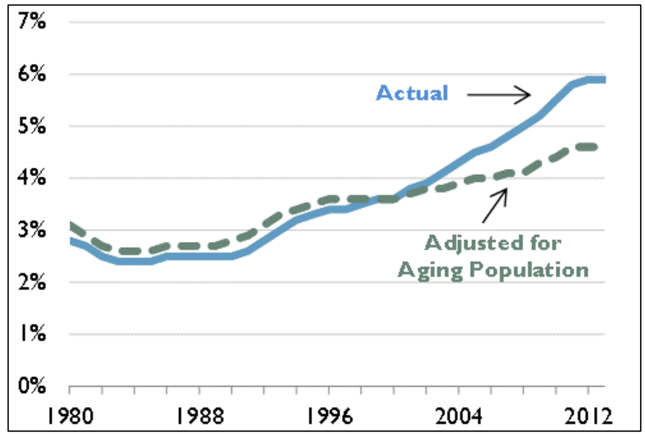
SSDI is financed primarily by a 1.8% payroll tax on employers and employees, which is part of the total 12.4% Social Security payroll tax; the other 10.6% finances OASI.

Program Growth

SSDI has grown markedly: Between 1980 and 2013, the number of beneficiaries increased from 4.7 million to 11.0 million, mostly because the number of disabled workers grew. In 1980, 2.1% of working-age adults (aged 20-64) were disabled workers; in 2013, 4.4% were. The cause of some of this growth is clear—for example, the population grew and aged, more women worked enough to be eligible for SSDI, and the Great Recession increased applications from unemployed workers. However, the cause of a portion of this growth remains unclear.

Figure 1 shows disabled-worker beneficiaries as a share of the population eligible for benefits. The dotted line reflects only non-demographic factors, including (1) changes in opportunities for work and compensation (e.g., slow wage growth for low-skilled workers and high unemployment); (2) changes to federal policy that made it easier for some people to qualify for SSDI; and (3) the rise in Social Security's full retirement age, which reduced retirement benefits and made SSDI relatively more valuable. The solid line also reflects the aging of baby boomers into more disability-prone years. (More women worked enough to be eligible for SSDI. That contributed to growth in both the number of beneficiaries and the number of people eligible for SSDI, so its effects are not reflected in **Figure 1**.)

Figure 1. Percentage of Eligible Workers on SSDI



Source: 2014 Social Security Trustees Report, Figure V.C6.

Program Challenges

The growth in SSDI has generated concern among Members of Congress and the public for two main reasons.

Short-Term Financing Shortfall

First, it has contributed to the declining solvency of the program's Disability Insurance (DI) trust fund, from which SSDI benefits are paid. Outlays have exceeded income since 2009, causing the DI trust fund to shrink. It is expected to be exhausted by the end of 2016, after which taxes would be sufficient to pay about 80% of scheduled benefits. The resulting benefit cut would adversely affect one of the country's most vulnerable populations.

Avoiding exhaustion would require cash infusions to the DI trust fund. For example, Congress could allocate a larger share of the 12.4% Social Security payroll tax to the DI trust fund (as was done most recently in 1994) or authorize borrowing from the OASI trust fund or Medicare's Hospital Insurance (HI) trust fund.

With fewer than two years until trust fund exhaustion, even policies to reduce the number of beneficiaries (described below) would not notably forestall exhaustion.

Long-Term Program Growth

Second, employment rates of working-age individuals with disabilities have declined. Over the past 30 years, the employment rate among individuals (aged 21-64) who report a work-limiting disability has fallen from 24.4% in 1981 to 14.4% in 2013, a decline that cannot be adequately explained by health or economic factors.

Some research suggests that unemployed individuals with disabilities are increasingly more likely to apply for SSDI "rather than search for employment that would accommodate their disabilities." Once on SSDI, most disabled workers are unlikely to return to the labor force; for example, in 2013, 0.4% of all beneficiaries left the rolls due to work. Some believe that declining labor force participation promotes dependency and discourages self-sufficiency among working-age individuals with disabilities.

Previous Legislative Efforts

In recent years, reforms have focused mostly on providing current beneficiaries with incentives to return to work. In 1999, Congress created the Ticket to Work (TTW) program, which entitles beneficiaries to rehabilitation and reemployment support. TTW also extended Medicare coverage for beneficiaries who return to work and made it easier for people to return to SSDI after stints of work. However, few beneficiaries have participated in TTW, and it has had little effect on reemployment rates.

Policy Options to Limit Growth

Tighten Eligibility Criteria. Tightening eligibility requirements would reduce the number of individuals on the program who could work, but it would also prevent some who cannot work from receiving support. Deciding which disabilities are truly work limiting is difficult. As Henry Aaron, chair of the Social Security Advisory Board, summarized, "the challenge for society is to choose a definition that best balances its willingness to award benefits to some people who do not 'deserve' them and to deny benefits to some who do."

One option is to limit eligibility for SSDI to those under age 62, when workers are eligible for Social Security retirement benefits. Proponents contend that some people use SSDI "as an early retirement program." Opponents argue that many older people have little capacity to work.

Another option is to increase the "recency of work" requirement. Currently, individuals must have worked for at least five of the past 10 years to qualify for benefits. Increasing the requirement to four of the past six years would reduce the number of beneficiaries by roughly 4%.

A third option is to adjust "vocational factors," adjustments to disability criteria that make it easier for older people to qualify. Raising the ages at which those factors apply would make it more difficult for older workers to qualify.

Increase Reviews of Current Beneficiaries. Periodic continuing disability reviews (CDRs) end benefits for recipients found to have recovered from their disabilities. The Social Security Administration (SSA) estimates that each dollar spent on CDRs reduces future benefits by more than $10. However, funding limitations have resulted in a CDR backlog of about a million cases. Advocacy organizations, researchers, and the Administration all support increasing CDR funding.

Time Limit Benefits. Another option is to limit the benefits of all newly approved beneficiaries to a specified period. Time limiting benefits would partially shift the burden of proof in determining disability from SSA to the beneficiary. This option could be applied to all beneficiaries or restricted to those with less severe conditions.

Make Appeals Adversarial. This option would grant SSA representation at appeals hearings. When applications are denied, claimants may appeal to administrative law judges (ALJs). Most applicants hire a legal representative for an appeal. Proponents argue that having SSA representation at hearings would result in better decisions and greater judicial consistency. Opponents contend that the informal nature of hearings and lack of cross-examination of claimants encourages them to share more information.

Return-to-Work Incentives. Another option is to provide stronger incentives for beneficiaries to return to work. Currently, SSA allows beneficiaries to participate in a trial work period (TWP), during which they may earn any amount for nine months with no benefit reduction. SSA also provides employment services. Still, few beneficiaries permanently leave the program. Some beneficiaries deliberately "park" their earnings below the SGA threshold. To encourage work, several disability-rights organizations advocate replacing the strict SGA limit with a gradual reduction in benefits as workers earn more. SSA is currently conducting a Benefit Offset National Demonstration (BOND) project, in which participants lose $1 in benefits for every $2 in earnings over the SGA limit.

Early Interventions. Given the limited success of return-to-work efforts, several researchers have suggested focusing more on preventing people from joining SSDI in the first place. "Supported-work" policies would provide services shortly after disability onset, when workers still have a strong attachment to the labor force. "Experience rating," which would link an employer's tax rates to past SSDI claim rates, could be one way to encourage employers to provide such services and limit their employees' enrollment in SSDI. Opponents argue that the policy could backfire by making employers hesitant to hire workers at high risk for disability and that the policy fails to address the incentives for workers to apply for SSDI.

Another option is to promote or require employer-sponsored private disability insurance (PDI), which provides partial wage replacement and other return-to-work services. By intervening with robust employment supports early in the disability process, PDI may keep workers with disabilities attached to the labor force.

For additional information, see CRS Report R43054, *Social Security Disability Insurance (SSDI) Reform: An Overview of Proposals to Manage the Growth in the SSDI Rolls*, by William R. Morton.

William R. Morton, Analyst in Income Security

IF10053

Disclaimer