

Beth Mitchell  
Modern Political Economy  
May 1, 2013

### **The American Disability Insurance Program: Growth Trends and Solutions for Sustainability**

The disability insurance program, referred to in this paper as DI, provides money and health insurance to people who have physical and/or mental impairments which make them unable to perform “substantial” work. There are currently 11 million Americans who receive disability payments, which average about \$1100 per month; this represents 5% people between the ages of 25 and 64.<sup>1,2</sup> The number of enrollees in the DI program has increased dramatically in the past 30 years: it is currently triple what it was in 1980, and double what it was in 1995.<sup>3</sup> The working population which pays into the disability fund, on the other hand, has increased much more slowly, up only 40% in the past three decades. As a result, the Social Security trustees and the Congressional Budget Office project that the DI trust fund will become insolvent in 2016.<sup>4</sup> In this paper, I look at the various factors contributing to the rise in the number of DI beneficiaries, outline potential solutions that address each of these factors, and assess the validity of each of these proposals.

The fate of the disability insurance program matters far beyond just the program itself. Recipients are not counted in the labor force, which means that that unemployed people moving onto DI contributes to a decrease in the unemployment rate without a corresponding increase in production. The numbers are huge: the economy has added around 150,000 new jobs per month over the past few years; in this same time, approximately 250,000 people each month have

---

<sup>1</sup> Social Security Disability Insurance: Participation Trends and Their Fiscal Implications, CBO Issue Brief

<sup>2</sup> Porter, 2012

<sup>3</sup> Ruffing, 2012

<sup>4</sup> Ruffing, 2012

applied for DI, around 40% of whom were or will likely be approved.<sup>5</sup> The DI program does not provide significant incentives to return to the workforce, meaning most who enter the program contribute little to the economy for the rest of their lives, thus hampering overall growth in the long term. Furthermore, disability and social security are closely linked, particularly since so many DI recipients are close to retirement age; changes to one, particularly in age of eligibility, significantly impact the other. DI beneficiaries are also eligible for Medicare coverage after two years, regardless of their age, which means that increases in DI enrollment have contributed to the growing Medicare budget.

Although it's easy to fault government mismanagement and improper incentives for the growth in the disability program, demographics are a huge component. Interestingly, although it seems the calculation would be fairly straightforward, reports vary widely on how much they contribute to the increase; some analysts attribute demographics almost exclusively as the reason for the growth, while others see it as a minor contributor. I am most convinced by Kathy Ruffing of the Center on Budget and Policy Priorities, who identifies the impact as slightly more than half. Disability is highly correlated with age; over 70% of SSDI recipients are over 50 years old, and less than 3% are under 30.<sup>6</sup> The "prime years" for receiving SSDI, 50-67, are exactly where the baby boom generation is right now; as such, if demographics were all that mattered, we would soon see a decrease in DI enrollment. In addition, the entry of more women into the workforce means that many more are now eligible to apply for the DI program, which requires applicants to have worked at least five of the past ten years. Twenty years ago, male recipients outnumbered female recipients 2 to 1; now, the ratio is approximately equal.<sup>7</sup>

---

<sup>5</sup> This American Life, 2013

<sup>6</sup> Annual Statistical Report on the Social Security Disability Insurance Program, 2011

<sup>7</sup> Ruffing, 2012

Legislative changes have also played a significant role in the program's growth. A rule change signed by Reagan in 1984 made it easier for people to qualify for DI, with additional consideration given to hard-to-assess indicators like pain and mental stability, along with the existence of multiple but relatively less severe conditions.<sup>8</sup> More recent legislation increased the age when workers receive full social security benefits from 65 to 66, and will soon increase it to 67; this means that people stay on disability one year longer before transitioning to social security. This rule change had a disproportionate impact on DI enrollment: in 2011, nearly 5% of DI recipients were exactly 65 years old and so would have moved off DI to Social Security under the old regulations.<sup>9</sup>

The DI law has also led to the growth of companies that take advantage of the millions of dollars the program pays out every year. We've all seen the ads on TV or the subway for lawyers who do disability appeals. If they win the appeal, they get a hefty portion on the client's back payment, which is paid to them directly from the government without passing through the client's bank account.<sup>10</sup> This system was originally established to encourage lawyers to represent low income clients, but has led to opportunistic activity, particularly since the government side does not have an attorney during disability hearings making success on appeal all the more likely. Another set of companies sprung up to take advantage of the fact that what we think of as "welfare," now called Temporary Assistance to Needy Families (TANF), is largely funded by the states, whereas DI is funded by the federal government. Companies like Public Consulting Group ([www.publicconsultinggroup.com](http://www.publicconsultinggroup.com)) are hired by states to find people currently receiving TANF who would likely qualify for disability, and help them apply for the

---

<sup>8</sup> Social Security Disability Insurance: Participation Trends and Their Fiscal Implications, Congressional Budget Office.

<sup>9</sup> Ruffing, 2012

<sup>10</sup> This American Life, 2013

new program and thus move off the state's roster.<sup>11</sup> The obvious problem here, beyond the sheer ludicrousness of shifting spending between governments, is that the DI program has far fewer incentives compared to TANF to encourage individuals to return to the workforce.

Finally, there are macroeconomic reasons for why the disability program has grown during the recession. Living on DI payments alone means living in poverty; \$1100 a month will not get you very far in even the least expensive regions of the country. When the economy is strong, people who might qualify for DI can find better alternatives in the workforce: jobs which pay above minimum wage and accommodate their disability. In a downturn, these jobs are harder to get, and a disability check becomes the best available option. While DI opponents use this as proof that the program creates strong disincentives to work, this is not entirely accurate: in a study of men who applied for disability but were denied, only 53% reported any income two years after they applied, suggesting that those who apply for the program have limited professional opportunities regardless of the severity of their disability.<sup>12</sup> Furthermore, the economic climate has a significant impact on the number of DI applicants, but a much smaller impact on the actual awards, suggesting that while applying to DI becomes more appealing in a recession, most of these new applicants are "borderline" disabled and do not get approved for the program.<sup>13</sup>

One of the more interesting elements of the DI program is that the criteria used to determine eligibility include the applicant's education level and work experience. People with more experience and education are presumed more able to find desk jobs, which means they have a higher bar for proving they can't work due to their disability. However, this seems to only apply to applicants over fifty, and the key educational issue is whether the person has

---

<sup>11</sup> This American Life, 2013

<sup>12</sup> Ruffing, 2012

<sup>13</sup> Ruffing, 2012

completed high school.<sup>14</sup> Anyone under fifty and/or with a high school diploma is presumed able to learn new skills. People with disabilities are on average less educated than the general population; the Bureau of Labor Statistics reports that only 15% of disabled people over 25 have a college degree, as compared to 33% of the non-disabled population (statistics are people who self-report as disabled as opposed to people specifically receiving DI).<sup>15</sup> This contributes to the difficulty that disabled people face finding jobs even during periods of economic growth; in a recession, it becomes that much harder.

The massive growth and impending insolvency of the DI program prompts the question of what should change. A stop gap measure which I imagine the congress will take is reallocating money from the Social Security Fund to the Disability Fund. This was already done once, in the 1990s. While this is not a long-term solution, it would increase the solvency of the DI fund by 17 years, from 2016, while only decreasing the Social Security fund's by two, from 2035 to 2033.<sup>16</sup>

Increasing taxes would certainly solve the problem, although there are obvious political challenges to this approach. Workers currently contribute 0.9% of our earnings below \$113,700 to the DI program, with employers contributing another 0.9% for a total of 1.8%; the Congressional budget office estimates that increasing the combined amount to 2.2% would make the program solvent for the long term. Raising the taxable amount from \$113,700 to \$174,000 would have a similar impact.<sup>17</sup> I would fully support the latter option as I am sure that high income earners and their employers don't need that extra \$500 or so of income nearly as much as the average DI recipient, but I understand this may not be a politically feasible option. Ideally, a

---

<sup>14</sup> Laurence, 2013

<sup>15</sup> Bureau of Labor Statistics, Persons with a Disability: Barriers to Employment, Types of Assistance, and other labor-related issues – May 2012

<sup>16</sup> Ruffington, 2013

<sup>17</sup> Policy Options for the Social Security Disability Insurance Program, Congressional Budget Office

change like this would be enacted in tandem with rule changes which make the program harder to “game” and more efficient.

Another obvious change, then, is to improve the monitoring and administration of the program. The DI administration conducts periodic checks to make sure that recipients are still eligible for the program; however, there is not nearly enough funding to perform regular diligence. Additional allowances for this type of review would pay for themselves several times over. The Congressional Budget Office estimates that \$4 billion in funding for more of these periodic checks would save the disability program \$12 billion in benefits over the next decade; the problem, of course, is coming up with the \$4 billion at the outset.<sup>18</sup> Another equally obvious change relates the fact that denied applicants can appeal their case to a judge with the help of an attorney, but the government side is not represented. Assigning attorneys in these cases in a role similar to a court prosecutor would increase costs in the short run, but likely decrease them in the long run, allowing only the valid appeals to be approved.<sup>19</sup> This would also at least partially limit the windfalls awarded to commission-based, TV-ad attorneys. Both of these solutions are obvious wins on both the programmatic and financial fronts, but difficult to enact given the initial capital requirements.

Another possibility to make the program financially sustainable is, of course, to reduce benefits. This is what will happen if no changes are made the program before 2016, when the trust fund is projected to run out. There are various ways to enact this: reducing the monthly payment across the board for all recipients; reducing the rate at which the benefit grows; making people ineligible after the age of 62, when they could qualify for reduced social security benefits; extending the wait time after people become disabled until they can receive DI benefits. I do not

---

<sup>18</sup> Policy Options for the Social Security Disability Insurance Program, Congressional Budget Office

<sup>19</sup> Policy Options for the Social Security Disability Insurance Program, Congressional Budget Office

think any of these are good solutions. The DI program is intended to support people who cannot work due to their disability; with the current average payment around \$1,100 per month, this is barely possible. It is not in the program or the country's best interest to see these individuals fall into deeper poverty. I would tighten eligibility criteria long before I cut everyone's benefits, although there are no obvious ways to do this fairly and compassionately.

Some researchers and policy makers advocate more market-based solutions. Duggan and Autor suggest requiring employers to purchase private disability insurance, analogous to private employer health coverage, which this would force employers who "create" more disabled workers to pay higher premiums, incentivizing them to keep disabled workers on the job.<sup>20</sup> An similar, government-based solution is to alter the payroll tax that companies pay based on the number of their workers who become disabled. The concern with either of these versions of making the employer responsible is that they provide an obvious incentive for employers not to hire disabled workers in the first place. While I would be in favor of pilot projects to test these ideas if possible, I am not optimistic about their potential. It is also hard for me to imagine adding this burden to employers as being politically feasible.

Giving workers tax incentives to stay in the workforce and/or work part time is another potential option which could offer a win-win for the government and the individual if it were structured in the right way. This might be in the form of an Earned Income tax credit specifically targeted to individuals with a medically documented disability, though this raises the question of why working disabled individuals are necessarily entitled to more than their non-disabled colleagues. Another easier to implement option would be raising the limit on earnings for those receiving disability, currently set at \$1000 per month, in order to encourage part time work; this would be accompanied by a slow fading out of benefits as income increases rather

---

<sup>20</sup> Porter, 2012

than a set cap. While these incentives are certainly worth exploring, I don't think that they would significantly impact the number of people going onto DI given the many barriers to employment they face; I also question whether writing tax code that incentivizes the right behavior is truly feasible.

Finally, there is the question of whether the DI program can be reshaped to better enable returns to the workforce for people who either recover from their disability or are able to find workplaces that provide sufficient accommodations. Workforce training programs and pathways such as those required of TANF recipients could be designed specifically for DI recipients, along with programs aimed to smooth the transition from benefits to the workforce. The "Ticket to Work" program instituted in 1999 attempted to do this by providing funding for job counseling services and extended Medicare coverage to DI recipients who went back to work; however, it did not have a measurable impact on rates of workforce re-entry.<sup>21</sup> The problem for many is not just the disability, but the time they have been out of the workforce; finding an employer willing to overlook a multi-year resume gap is a serious challenge.

The solution to the problem is not obvious, but the good news is that there are a number of relatively reasonable and feasible things that could work, as outlined in this paper. While some, like the tax increase or benefit cut, are clearly partisan, others don't fall so clearly on either side of the line. Additionally, DI doesn't suffer quite as much from being in the public eye as the larger Medicare and Social Security programs, meaning that rational, bipartisan solutions may be more feasible. While there is certainly the chance that the trust fund will simply run out and beneficiaries will receive smaller checks each month, I think it is more likely that politicians will come at the very least to a short term solution, if not long term reformation.

---

<sup>21</sup> Policy Options for the Social Security Disability Insurance Program, Congressional Budget Office



**Sources:**

Annual Statistical Report on the Social Security Disability Insurance Program 2011, Social Security Administration, released July 2012.

[http://www.ssa.gov/policy/docs/statcomps/di\\_asr/2011/index.html](http://www.ssa.gov/policy/docs/statcomps/di_asr/2011/index.html)

Autor, David and Mark Duggan, The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding, August 2006. NBER Working Paper Series.

<http://www.nber.org/papers/w12436>.

Labor Force Statistics from the Current Population Survey, Bureau of Labor Statistics, US Department of Labor. <http://data.bls.gov/timeseries/LNS11300000>

Laurence, Beth. How to Get Disability Benefits Based on a Medical-Vocational Allowance. Disability Secrets.com, part of the NOLO network. Accessed May 2013.

<http://www.disabilitysecrets.com/what-social-security-looks-for.html>. (Internet source appears legitimate, but hard to tell).

Matthews, Dylan, Five ways to reform Social Security Disability Insurance. The Washington Post Wonkblog, March 2013.

<http://www.washingtonpost.com/blogs/wonkblog/wp/2013/03/29/five-ways-to-reform-social-security-disability-insurance>

Persons with a Disability: Barriers to Employment, Types of Assistance, and other Labor-Related Issues – May 2012. Bureau of Labor Statistics News Release, April 2013.

<http://www.bls.gov/news.release/pdf/dissup.pdf>

Plumer, Brad, Harold Pollack: What ‘This American Life’ missed on disability insurance. Washington Post Wonkblog, March 2013.

<http://www.washingtonpost.com/blogs/wonkblog/wp/2013/03/28/harold-pollack-what-this-american-life-missed-on-disability-insurance>

Policy Options for the Social Security Disability Insurance Program, Congressional Budget Office, July 2012. [http://www.cbo.gov/sites/default/files/cbofiles/attachments/43421-DisabilityInsurance\\_print.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/43421-DisabilityInsurance_print.pdf)

Porter, Eduardo. Disability Insurance Causes Pain. New York Times, April 2012.

[http://www.nytimes.com/2012/04/25/business/economy/disability-insurance-causes-pain.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2012/04/25/business/economy/disability-insurance-causes-pain.html?pagewanted=all&_r=0)

Ruffing, Kathy A., Senior Fellow, Center on Budget and Policy Priorities. Testimony Before the Subcommittee on Social Security Committee on Ways and Means U.S. House of

Representatives, March 20, 2013.

[http://www.cbpp.org/cms/index.cfm?fa=view&id=3934#\\_ftn32](http://www.cbpp.org/cms/index.cfm?fa=view&id=3934#_ftn32)

Ruffing, Kathy A. Social Security Disability Insurance is Vital to Workers with Severe Impairments; Program's Growth Largely Due to Demographic Factors; Financing Should Be Addressed as Part of Overall Solvency. Center on Budget and Policy Priorities, August 2012.

<http://www.cbpp.org/files/8-9-12ss.pdf>

Social Security Disability Insurance: Participation Trends and Their Fiscal Implications. Congressional Budget Office (CBO) Economic and Budget Issue Brief, July 2010.

[http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/116xx/doc11673/07-22-ssdisabilityins\\_brief.pdf](http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/116xx/doc11673/07-22-ssdisabilityins_brief.pdf)

This American Life, WBEZ Chicago. Transcript of Episode 490, Trends with Benefits.

Originally aired March 2013. <http://www.thisamericanlife.org/radio-archives/episode/490/transcript>