

Disability Benefit Growth and Disability Reform in the USA: Lessons from Other OECD Countries

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The **Declining** Work and Welfare of People with Disabilities

What Went Wrong and a Strategy for Change



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This American Life: Voices of the People March 2013

- **Poor mothers** concerned that if their child succeeds in school they will lose their welfare (SSI-kids) benefits.
- **SSI children** who seem able to learn.
- **Firms** specializing in placing TANF populations on SSI providing these services to States.
- **Unemployed workers** who could work if jobs were available but instead apply and get DI/SSI
- **Lawyers** who provide their services to DI/SSI applicants contingent on success.
- **Insurance firms** helping their beneficiaries get onto DI rather than return to work. (NY Times)

Motivation for the book

U.S. Disability Policy: goals and outcomes

- Americans with Disabilities Act of 1990: **people with disabilities can and will work if given the opportunity**
- Reality: **An increasing share of working-age people with disabilities are on SSDI/SSI and not working**

What happened?

- **SSDI and SSI policy mission creep**—Increasingly becoming expanded unemployment and more general welfare programs discouraging work.

Change is possible

- **Policy induced outcome** so policy induced changes—U.S. welfare (TANF) and Dutch disability reforms

Can people with disability work?

- ADA vision: Impairments/work limitations matter
- Social environment also matters (**accommodation, rehabilitation, public policy**)
- Return to work most likely following impairment
- SSDI **payroll taxes discourage firms** from investing in return to work and the **easing of eligibility standards** encourage applications for benefits and reduce work for those accepted.
- SSI **discourages States** from investing in return to work for poor single mothers and the movement into work of their children with disabilities once they age out of the SSI-children program

Employment Down, Benefits Up

Employment and Benefit Receipt (Aged 25-61)

Year	Work limitation prevalence	Employed Last Week	SSDI/SSI receipt
1981	7.9 %	26.1%	34.4%
1990	7.4 %	30.4%	35.1%
2010	7.8 %	22.6%	51.4%
2012	8.6 %	15.1%	51.6%

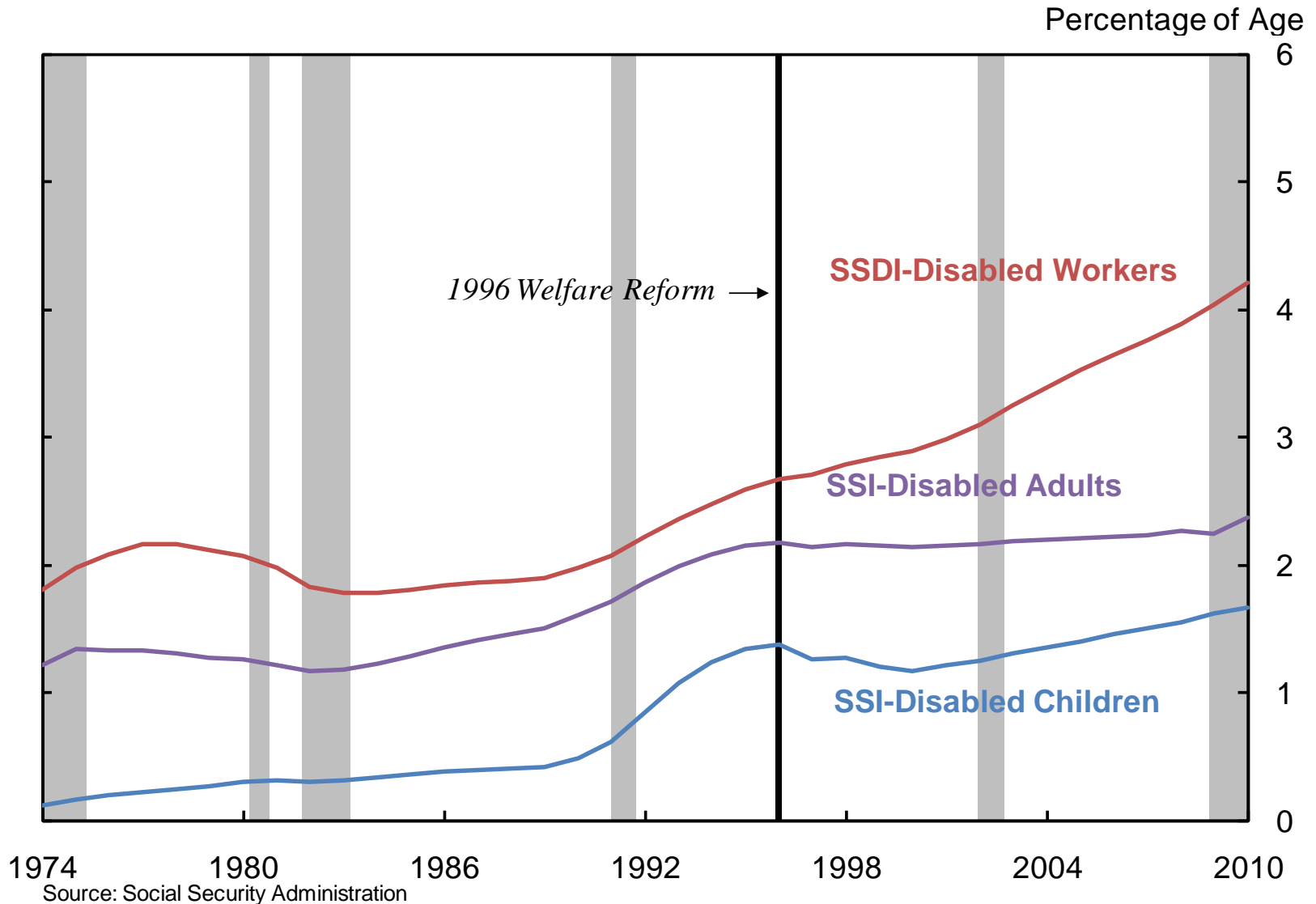
Hard to Determine SSDI Eligibility

- 23 percent of initial applicants are marginal entrants
- SSDI acceptance causes a 21 percentage point reduction in their employment relative to an SSDI rejected control group
- Marginal treatment effects vary:
 - least severely impaired (60 percentage point reduction)
 - most severely impaired (10 percentage point reduction)

Maestes, Mullen, and Strand (2013) *AER*

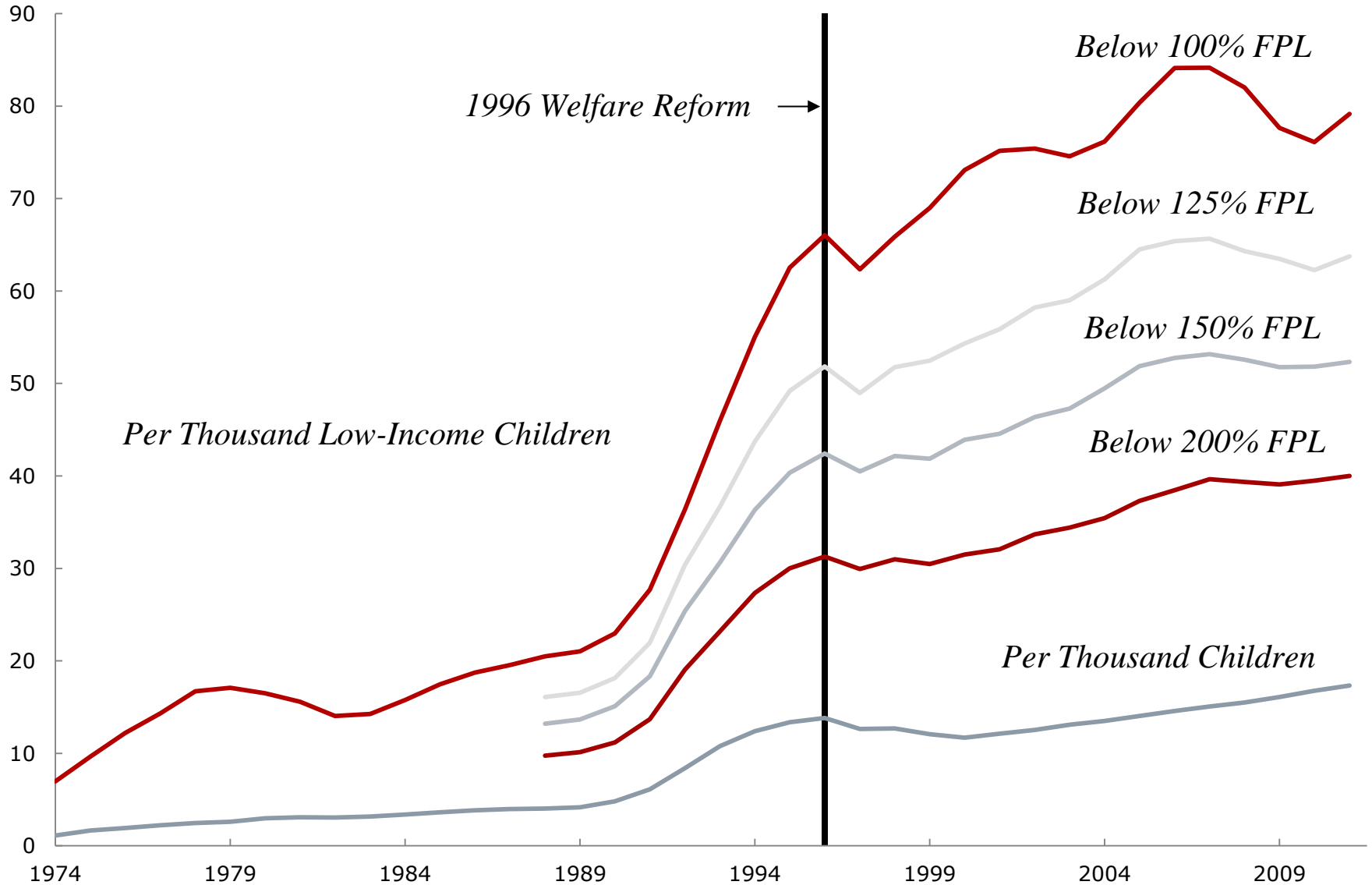
Rapid Growth in Disability Rolls

Benefit Rolls Over Time



Rise in poor children on SSI-Child

Caseloads per Thousand



1996 Welfare Reform

Below 100% FPL

Below 125% FPL

Below 150% FPL

Below 200% FPL

Per Thousand Low-Income Children

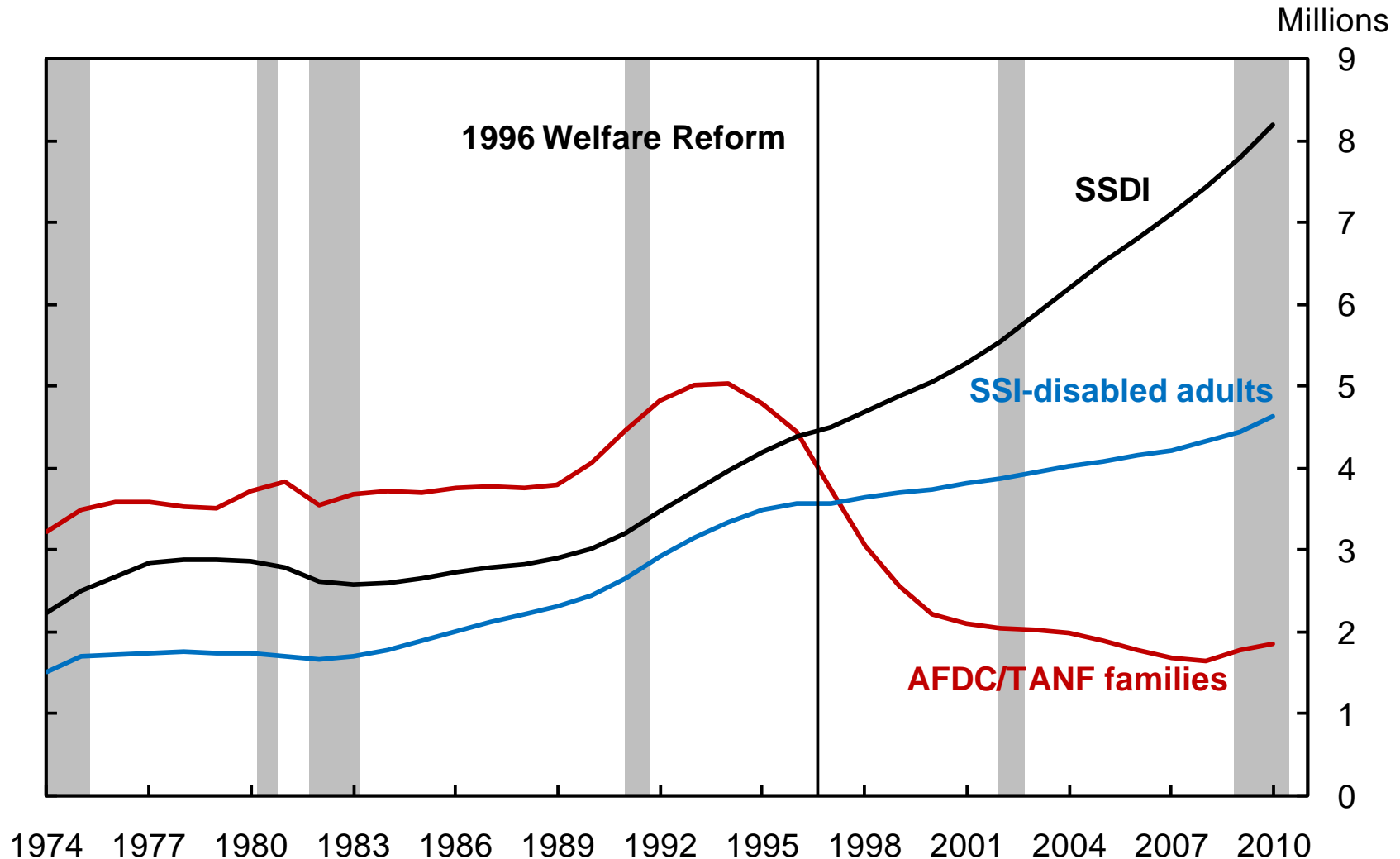
Per Thousand Children

**What has been happening to
the economic welfare of people
with disabilities?**

A look at the data

Disability rolls up, TANF rolls down

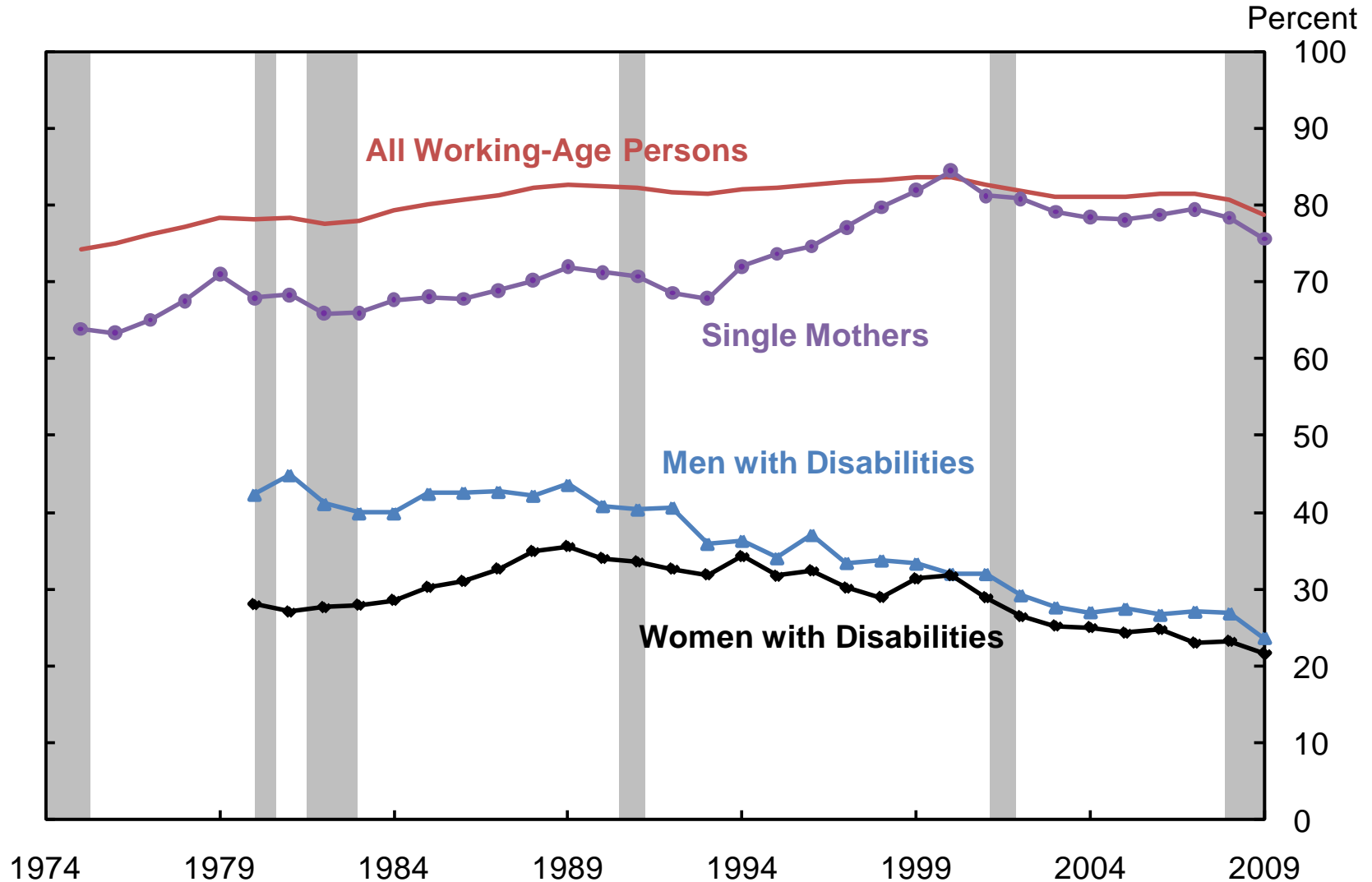
SSDI, SSI-disabled adults, and AFDC/TANF benefit roll populations



Source: Authors' calculations using March CPS data

Employment rates down

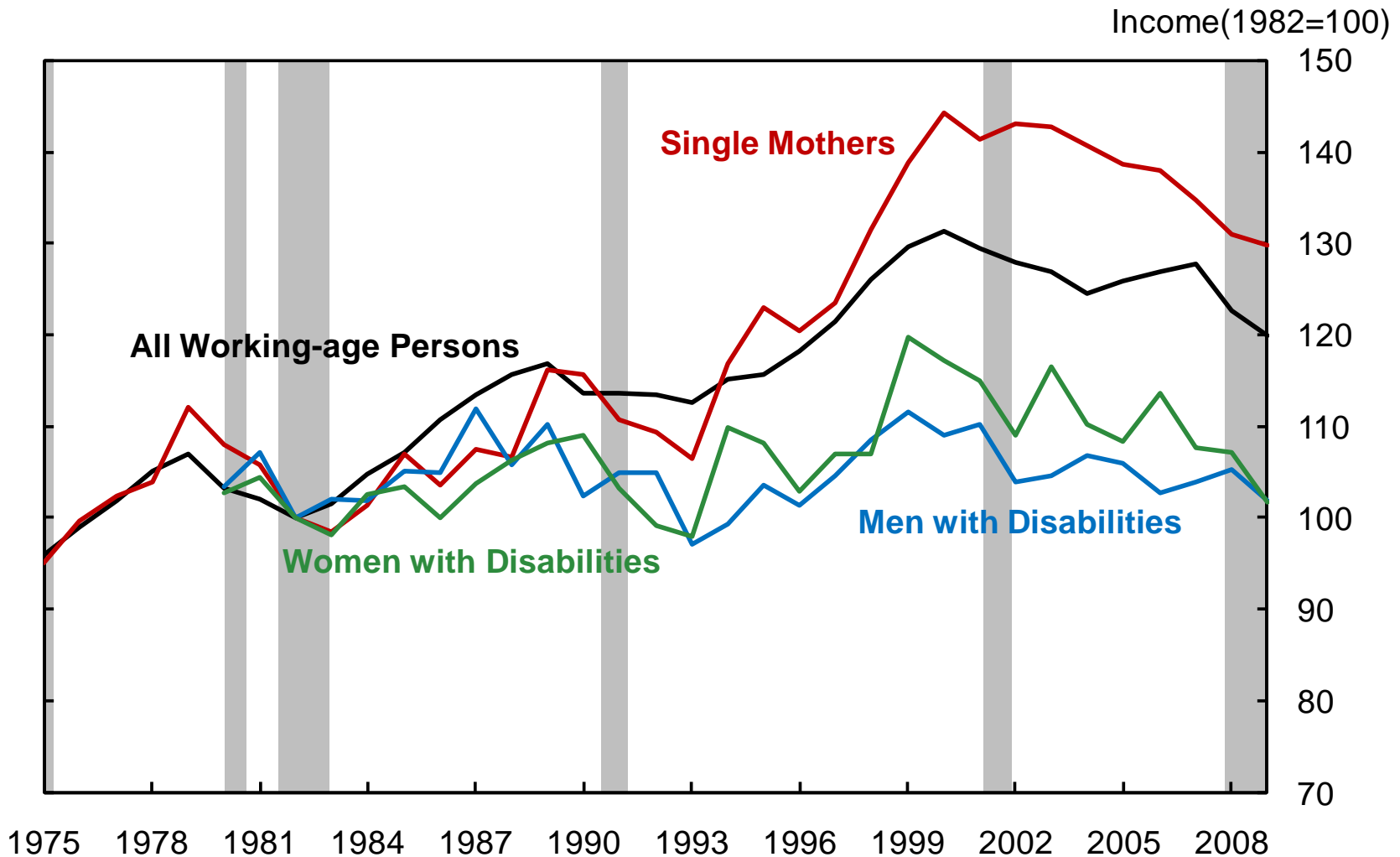
Employment Rates of Working-Age Populations



Source: Authors' calculations using March CPS data

Post-welfare reform income path

Changes in Income of the Median Vulnerable Working-age Person



Source: Authors' calculations using March CPS data

Fundamental Criticism of Book and of all economic analyses of SSDI

- Vast majority of SSDI program growth caused by factors unrelated to policy
- Hence no need to make changes in program policies except a one-time fix to cover current projected liabilities

(SSA Office of the Actuary)

What has driven program growth?

**Daly, Lucking and Schwabish (2013)
focus on what has been happening to
prevalence rate (beneficiaries per working-
age population)**

What has driven program growth?

Exogenous to DI Program Factors

Aging of the population (Baby boomers)

Change in Social Security Retirement Age

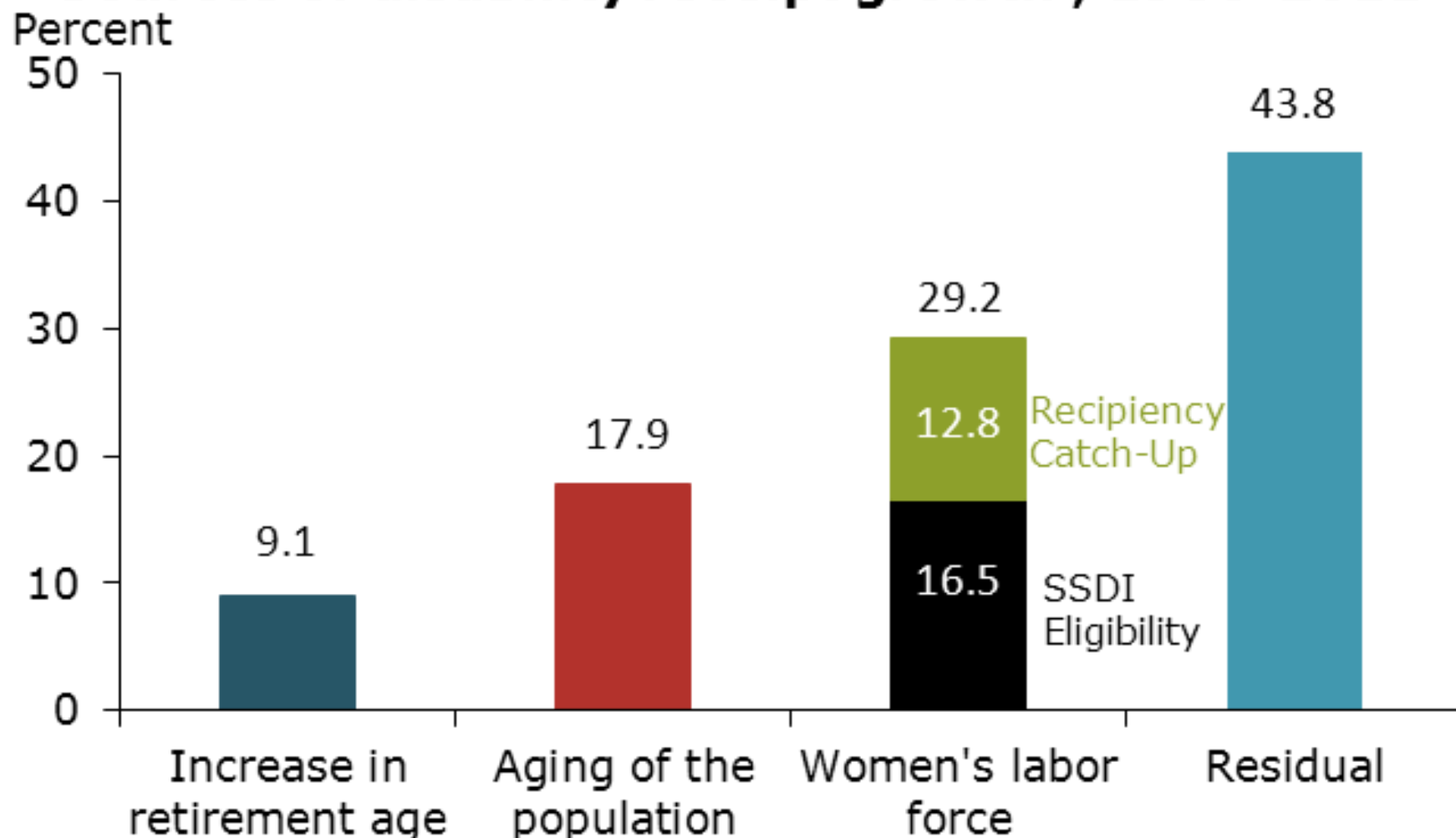
Women's labor force growth sufficient to gain SSDI coverage

Prevalence catch-up

Shift-Share Analysis

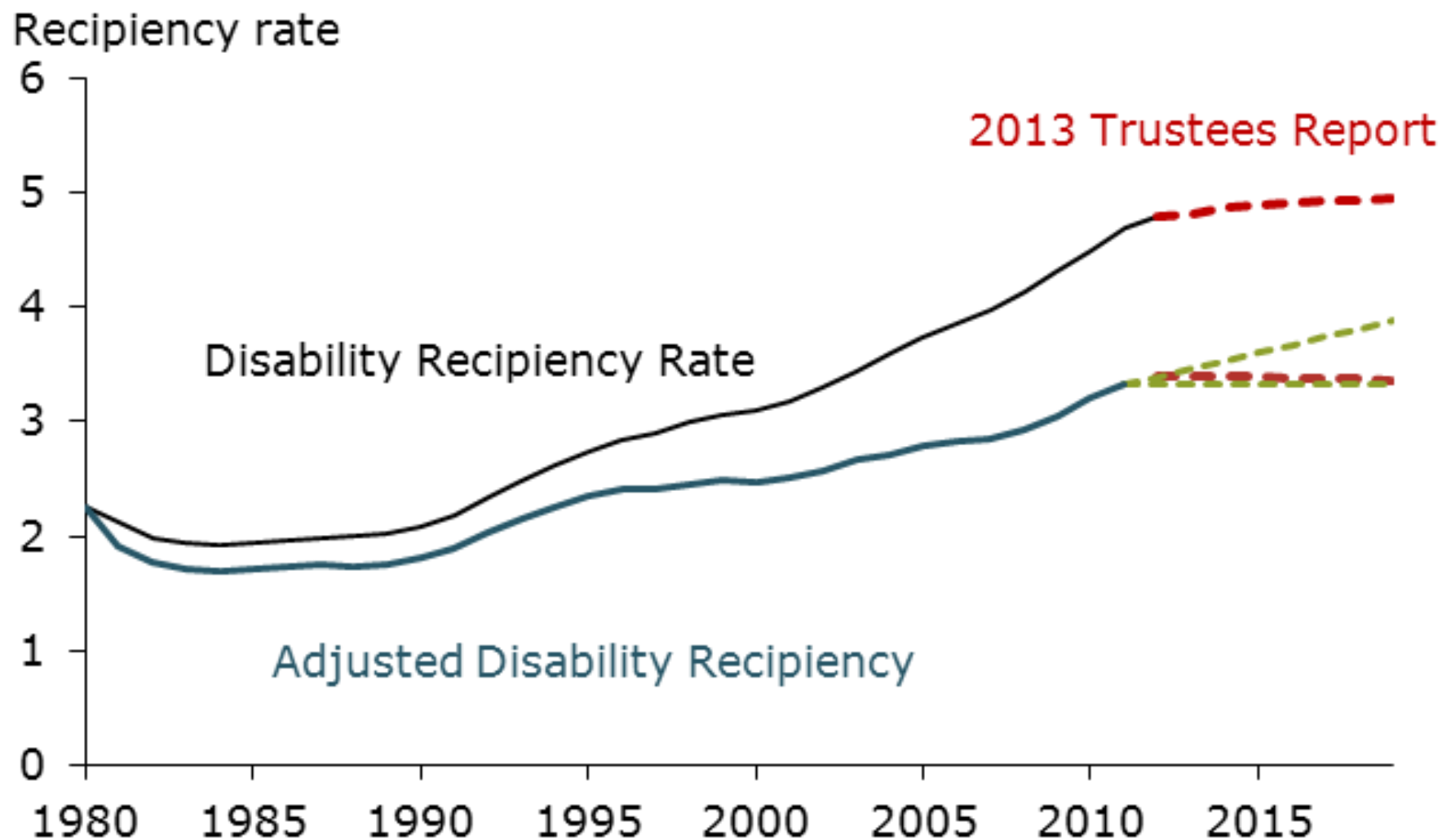
- Compare growth in prevalence rates between 1980-2012 and growth in a counterfactual world holding these factors at their 1980 levels
- Determine the degree that these factors are accounting for program growth and how much remains to be accounted for by other factors

Sources of disability receipt growth , 1980-2011



Source: Bureau of Labor Statistics, Social Security Administration, and Daly, Lucking and Schwabish (2013).

Scenarios of Future SSDI Growth



Source: Bureau of Labor Statistics, Social Security Administration, Daly, Lucking and Schwabish (2013).

Office of the Actuary Story

- Program Growth Can Primarily Be Accounted for by:
- Increase in the population
 - Change in the Age Distribution (aging work force)
 - Change in the “Exposure Rate” (growth in women’s coverage)
 - Result is a slow but steady increase in the number of beneficiaries
 - Prevalence Rate only accounts for at most 15% of this growth in beneficiaries
 - Predict future program growth primarily based on population, age distribution, and exposure rate

Size and Cost of SSDI in 2019

- **2010 Office of Actuary growth forecast:**
- SSDI caseloads: **9.5 Million**
- SSDI expenditures: **\$157 Billion**
- **Average population-adjusted growth (1990-2010):**
- SSDI caseload: **11.3 Million (19.0%)**
- SSDI expenditures: **\$187 Billion (19.0%)**

What will happen?

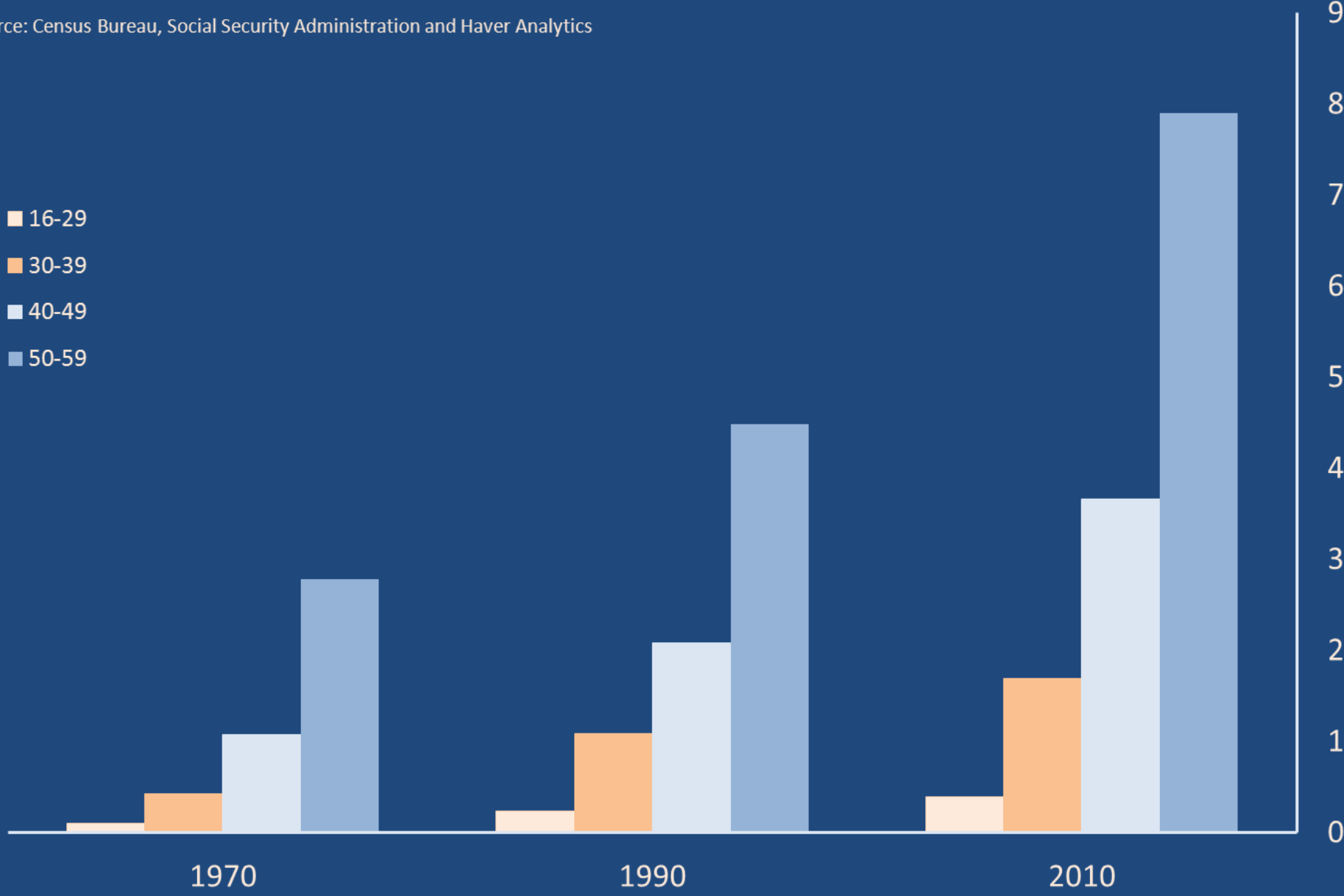
DI Prevalence by Age

Selected years

Persons per 100 within age category

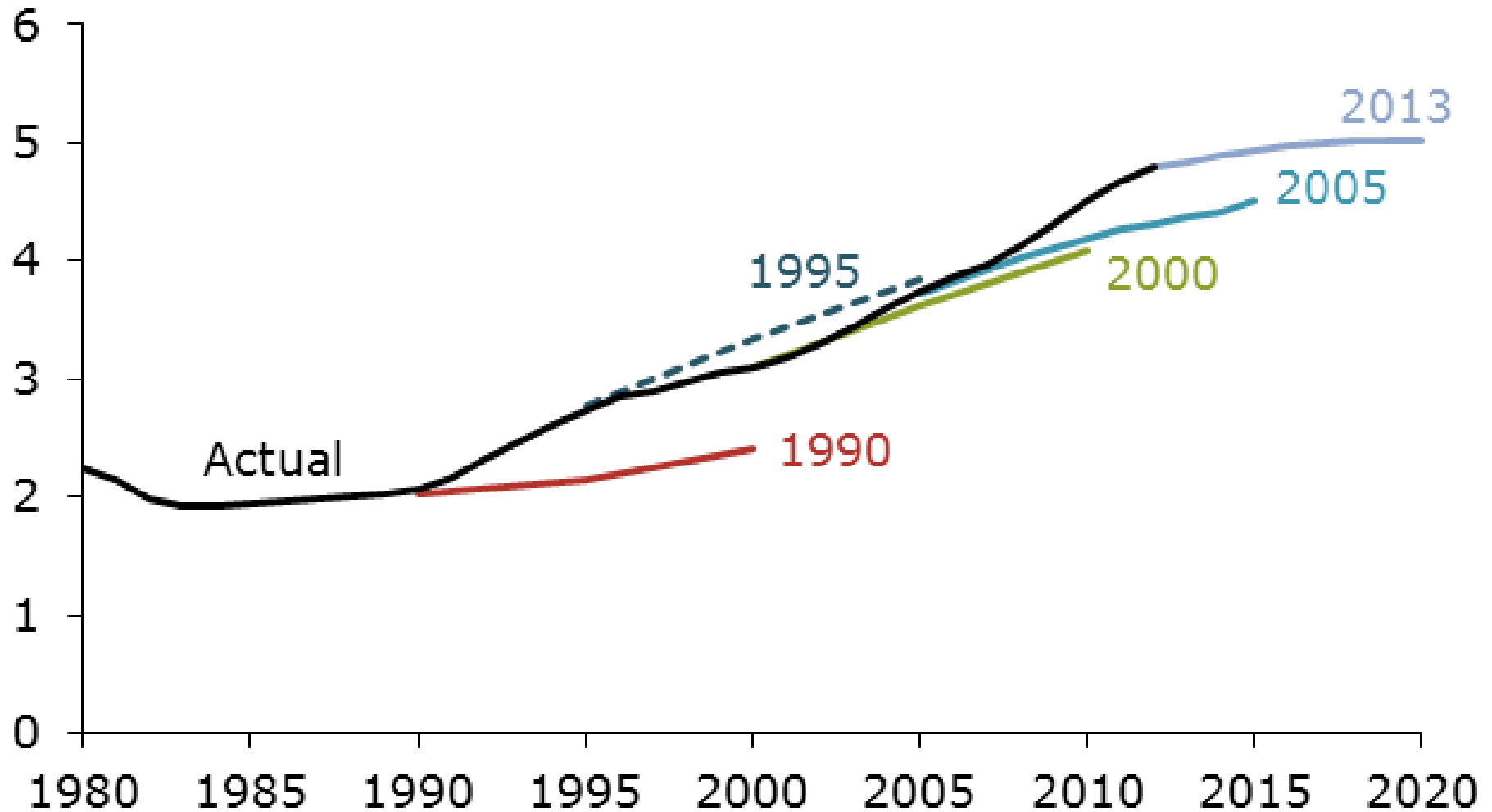
Source: Census Bureau, Social Security Administration and Haver Analytics

- 16-29
- 30-39
- 40-49
- 50-59



SSA Projections of DI Receipt

Recipiency rate



Source: Bureau of Labor Statistics, Social Security Administration, Daly, Lucking and Schwabish (2013).

**Is this level of SSDI prevalence rate
growth a satisfactory outcome?**

Depends on the factors driving it:

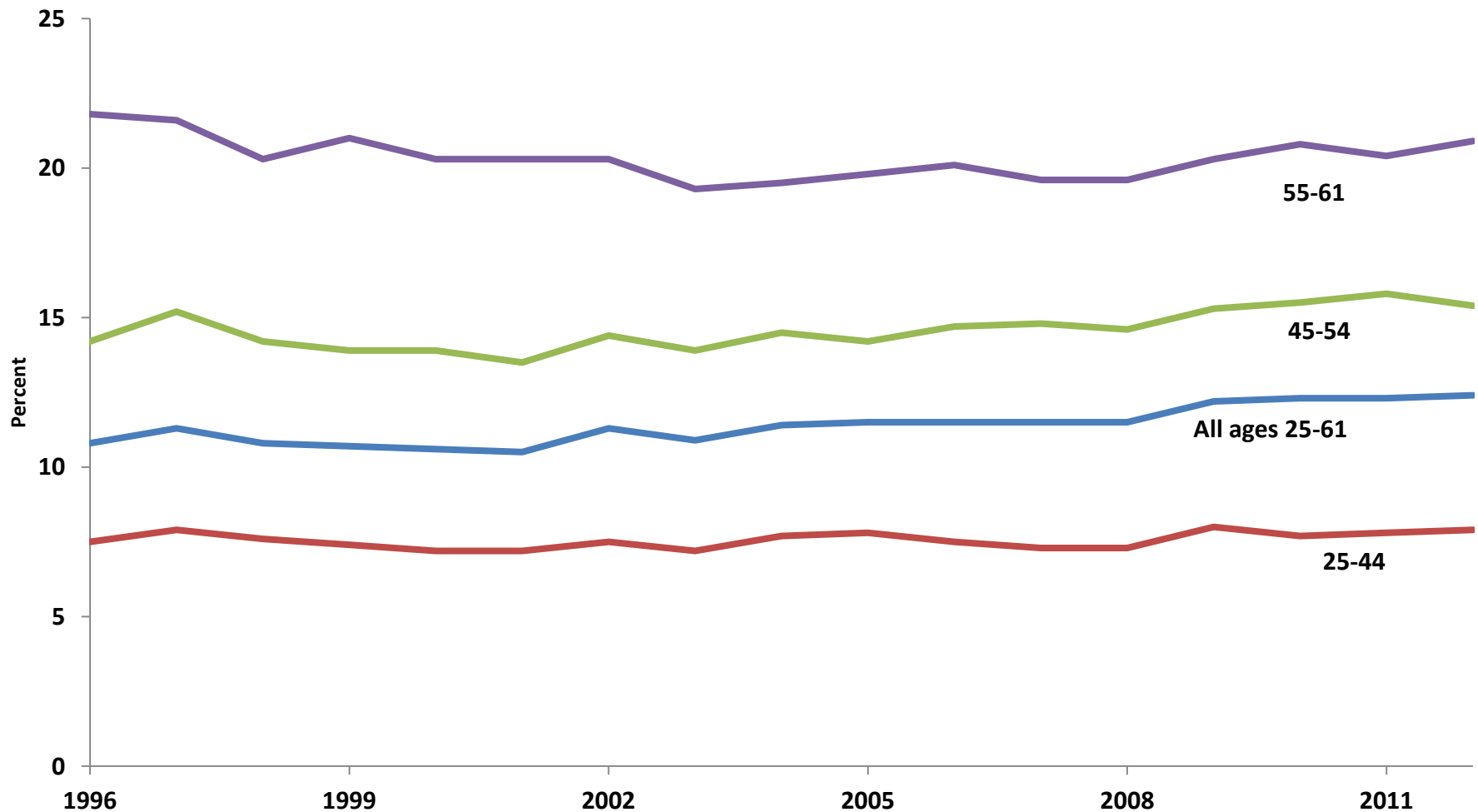
Health-driven disability epidemic

or

Policy-driven disability epidemic

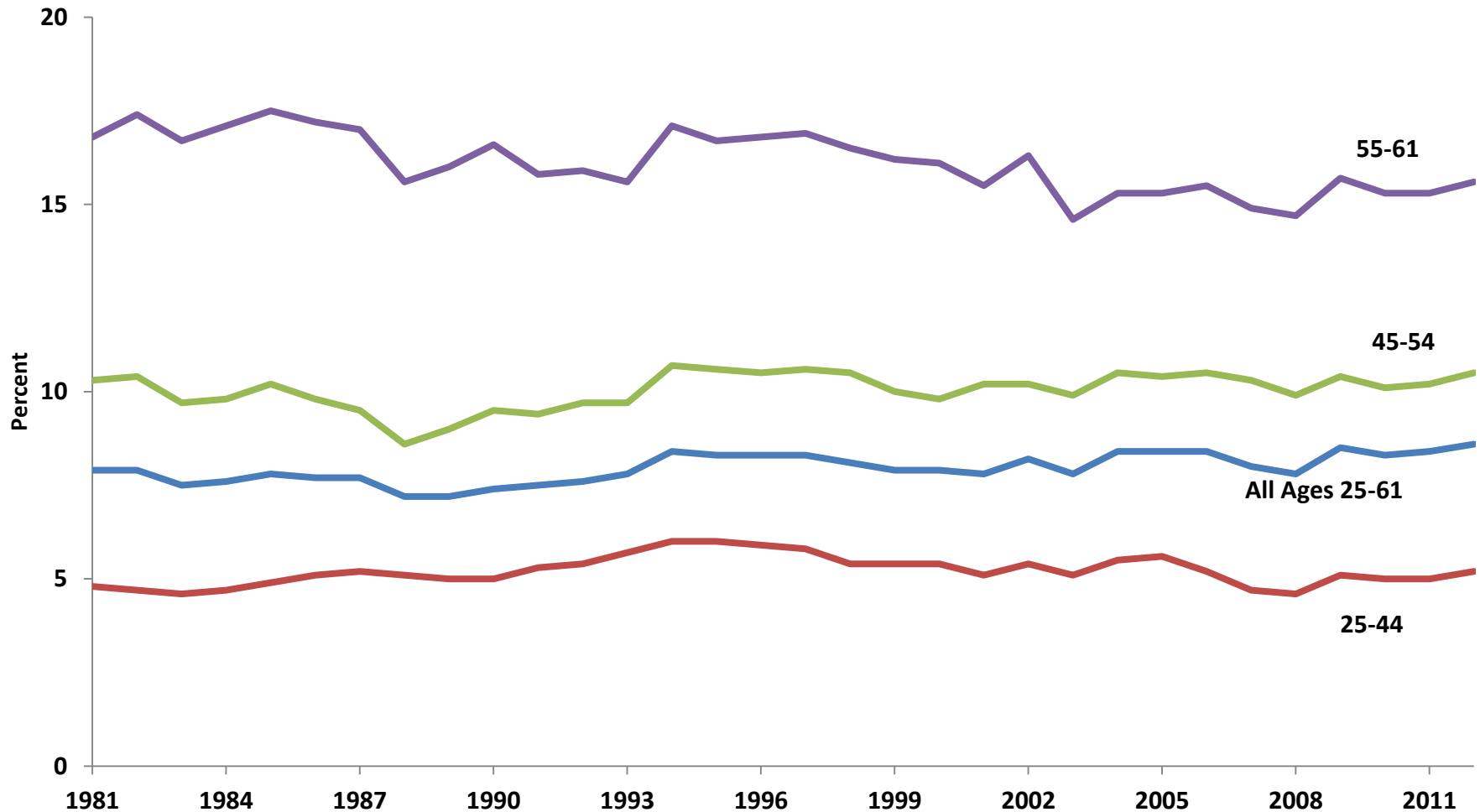
Health status: relatively constant

Percentage of U.S. Residents Reporting Fair or Poor Health, by Age Group, over Time



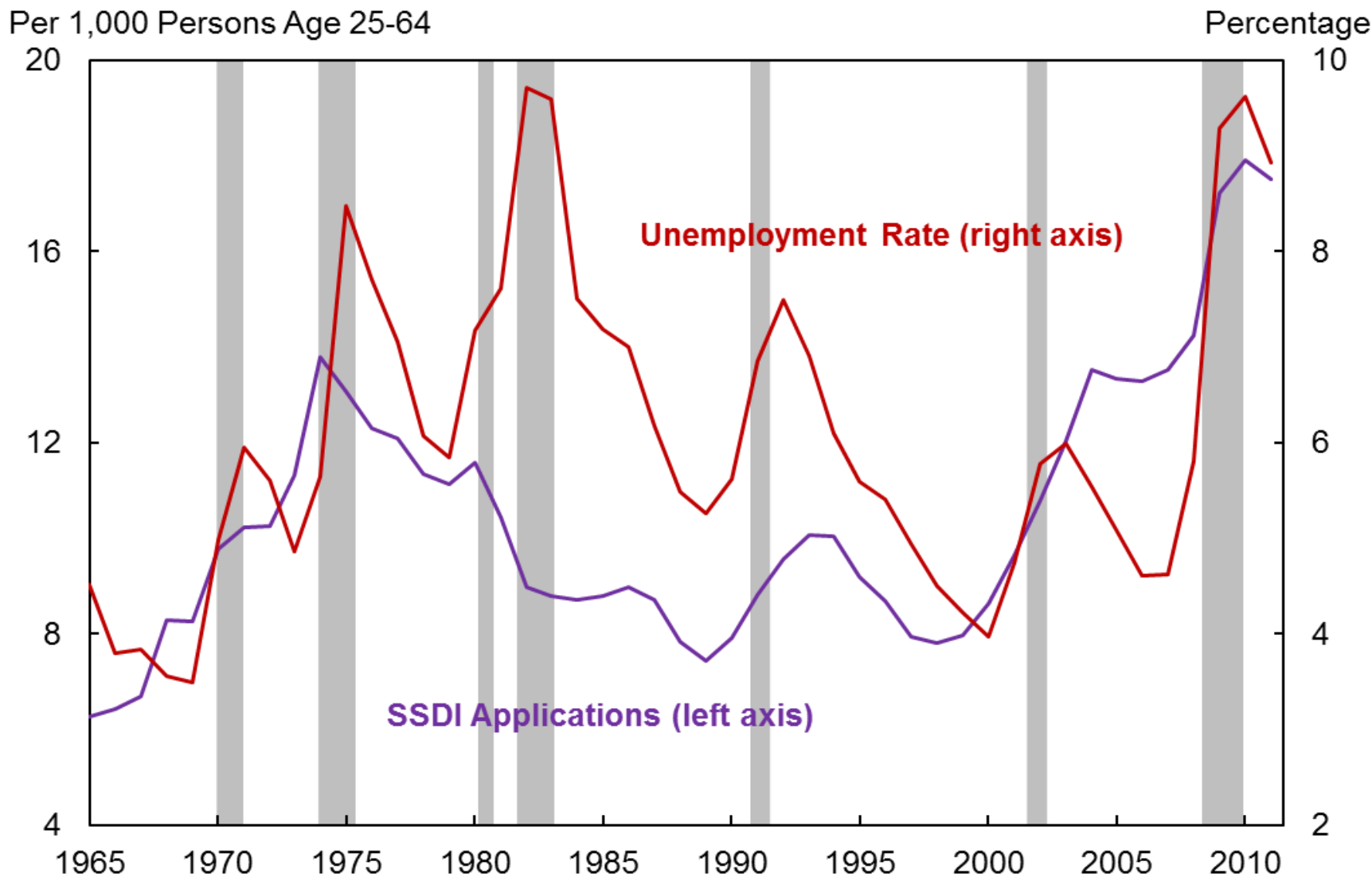
Work limitations: relatively constant

Percentage of U.S. Residents Reporting a Work Limitation, by Age Group, over Time



Applications: moving with economy

DI Applications and the Unemployment Rate



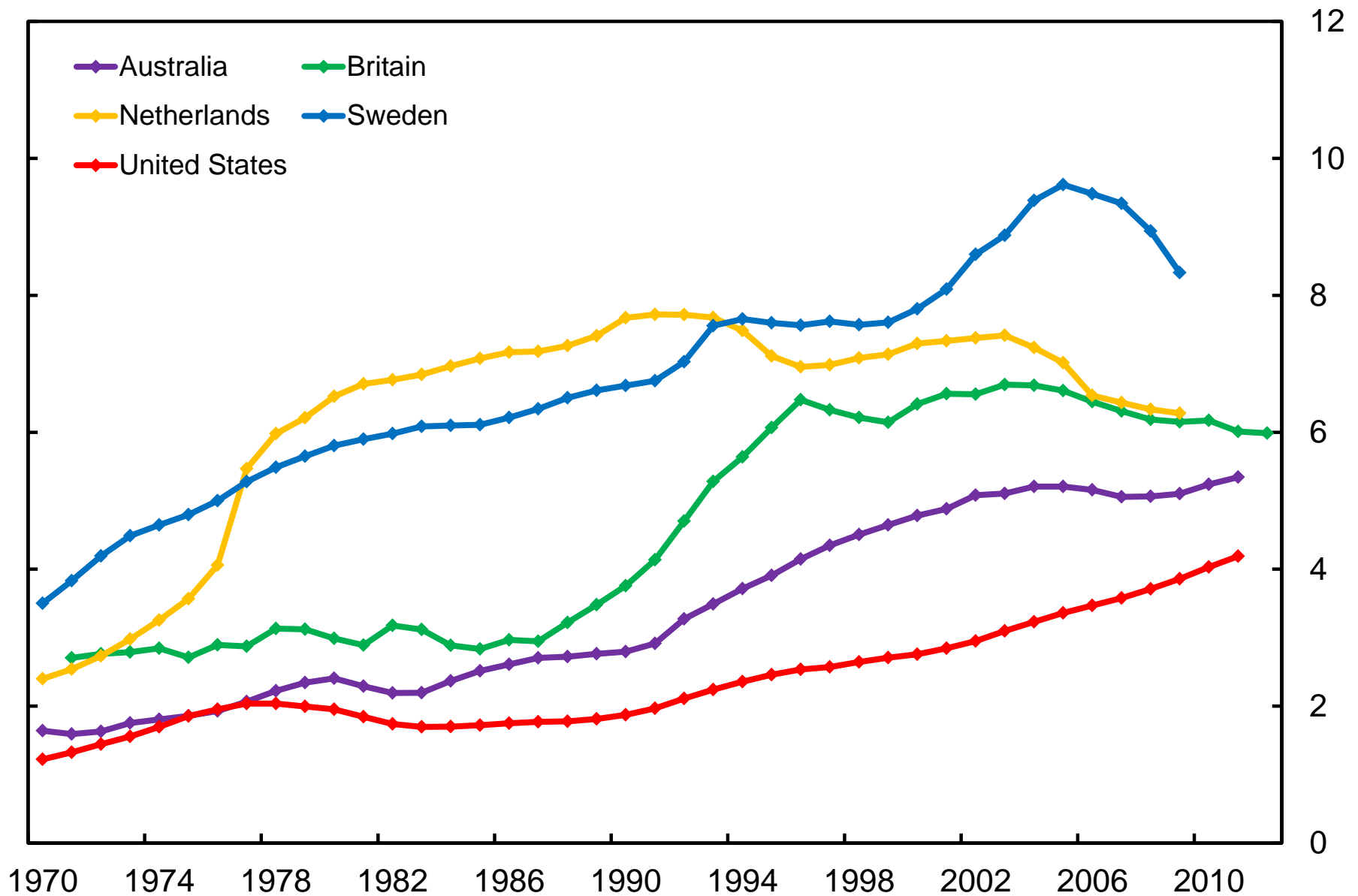
What's Been Happening in Other Countries

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Not Controlling for Exogenous Factors

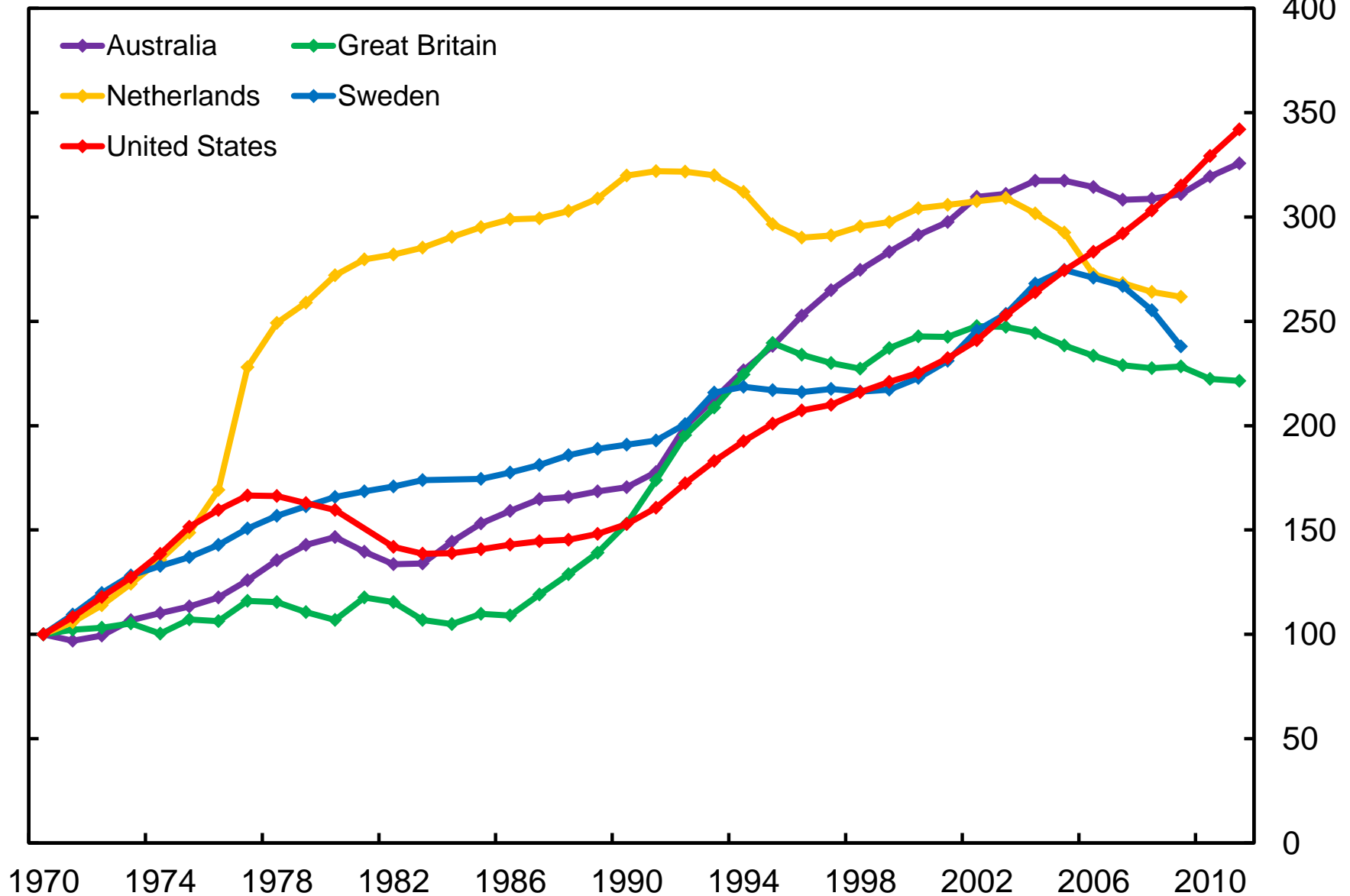
Disability Recipiency Rates in Australia, Britain, the Netherlands, Sweden and the United States (enrollees/working-age population)



Normalized unadjusted growth in reciprocity rates

1970 used as base year

Percentage

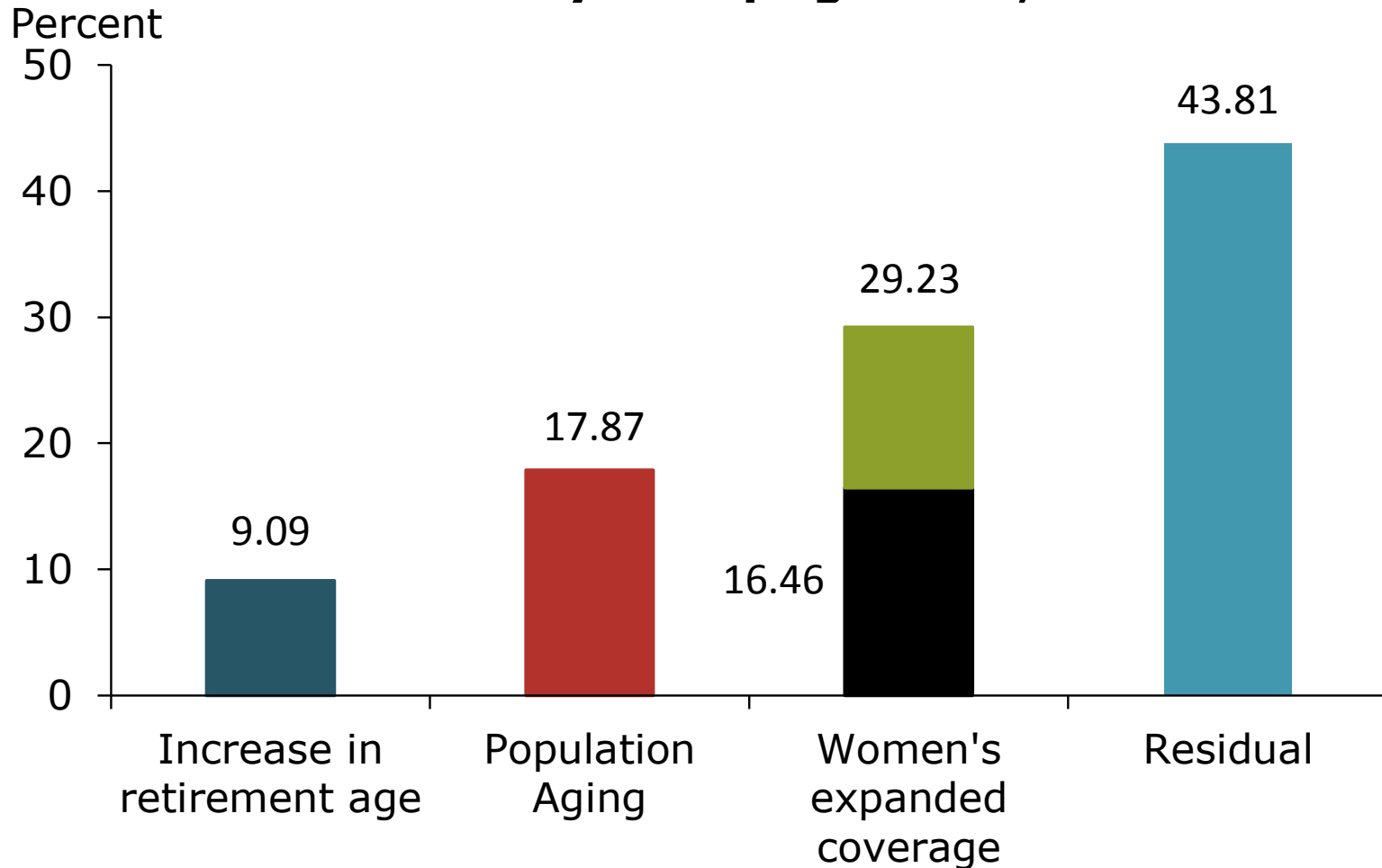


Controlling for Exogenous Factors

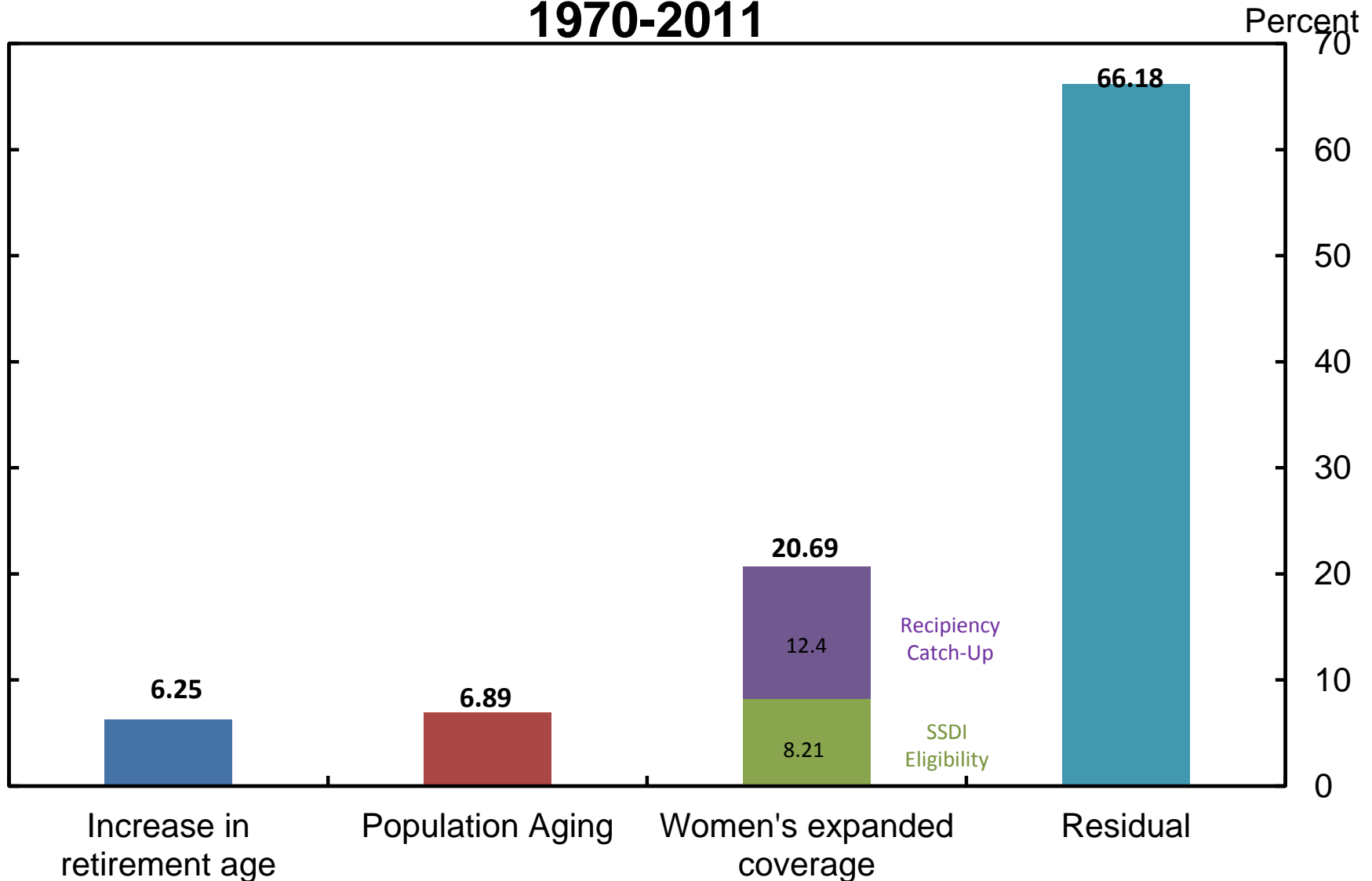
Drivers of SSDI Growth

Daly, Lucking, and Schwabish (2013)

Sources of disability receipt growth , 1980-2011

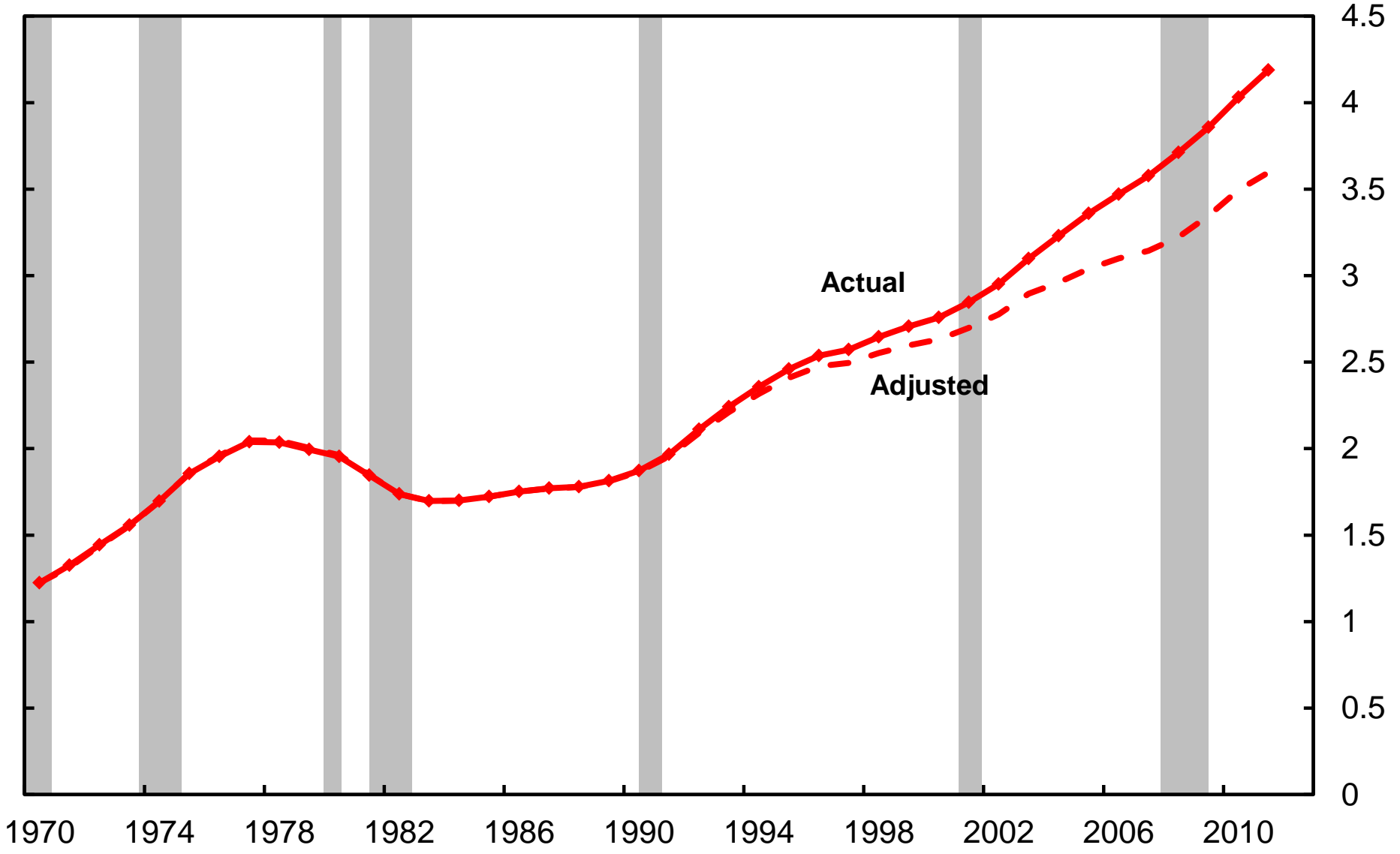


Sources of Disability Receipt Growth 1970-2011



Source: Social Security Administration, Bureau of Labor Statistics and Census Bureau

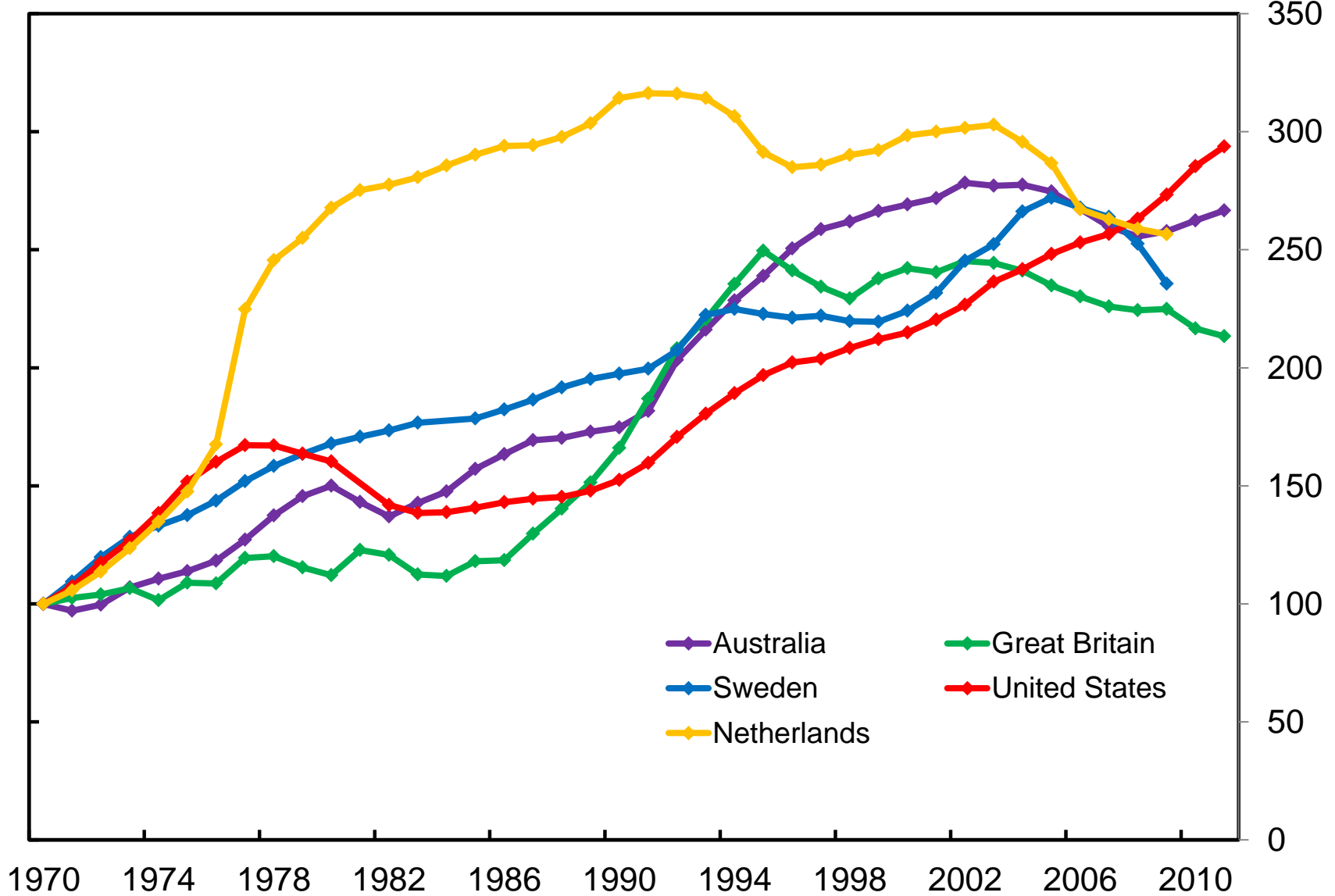
United States - DI Recipients per 100 Working Age



Normalized adjusted growth in reciprocity rates

1970 used as base year

Percentage



Is this a satisfactory outcome?

Depends on the factors driving growth:

Health-driven disability epidemic and cure

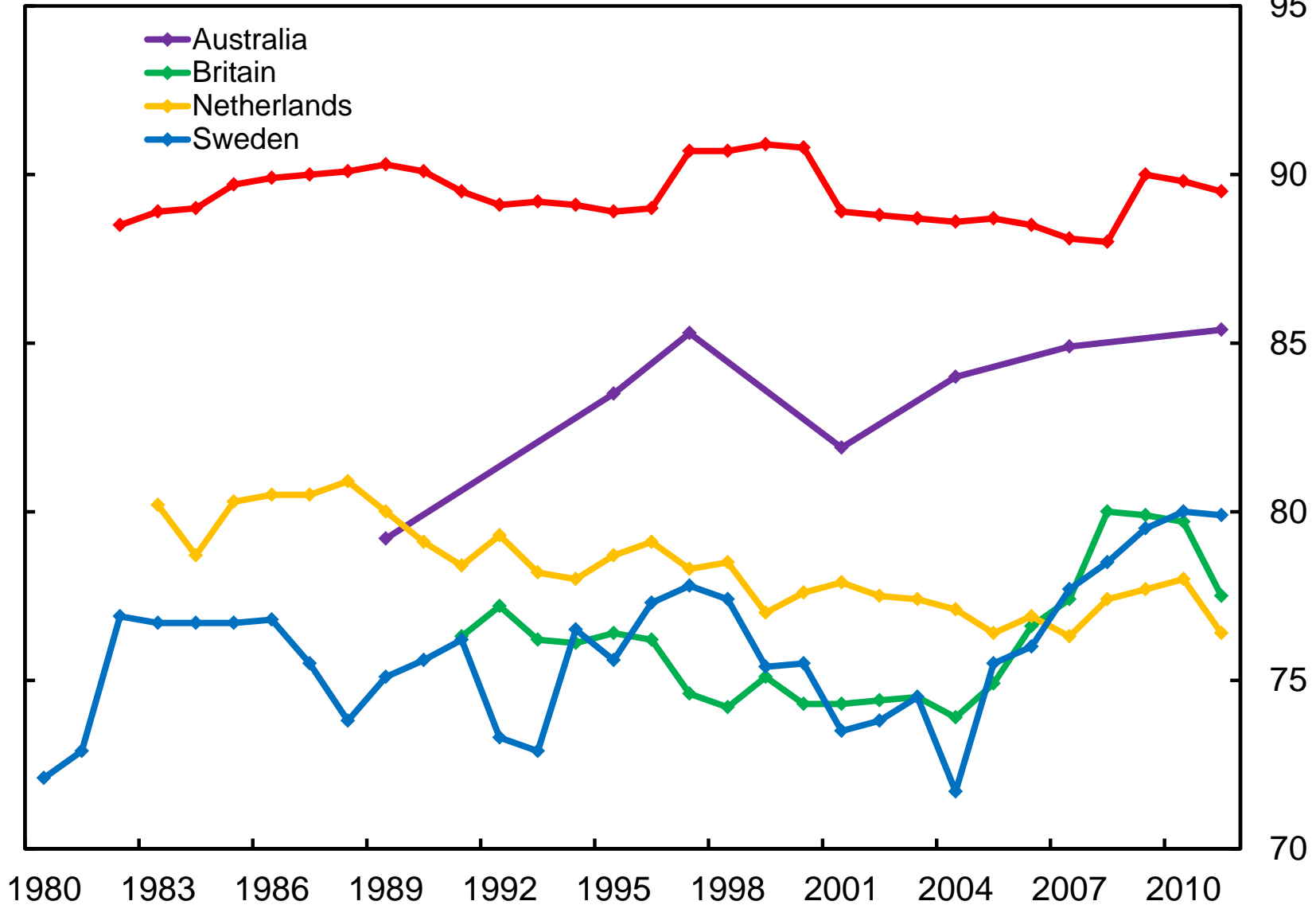
or

Policy-driven disability epidemic and cure

Perceived health status across countries

Percentage of population reporting good health, all ages

Percent



Framework for considering how disability policies affect behavior across countries

Tier 1 Social Minimum Welfare

- Broad eligibility but relatively low benefits

Tier 2 Social Insurance for temp. loss of work

- Narrower eligibility with higher benefits but with carrot and stick policies to encourage work

Tier 3 Categorical Social Insurance (Old-Age, DI)

- Only for those not working and not expected to work, highest benefits (penalties for working)

When and Why Policy Matters

Disability is a mutable category

ADA revolutionary idea: social environment matters.

Rolls increase:

- The greater Tier 3 benefits relative to other benefits
- The more difficult to determine eligibility objectively
- The less directly employers bear the costs of their workers going onto the rolls
- The less integrated work and cash transfer gatekeeper decisions are in the government-run system
- The longer after onset are pro-employment treatments
- The worse are macroeconomic conditions

Unexplained Program Growth?

- Changes in rules for all Tier programs
- Changes in administrative enforcement
- Changes in economic conditions

Dutch Reforms

- Lower after-tax replacement rates
- Tightened eligibility criteria
- Mandated employers provide first two years of temporary benefits and experience-rated long-term government-provided benefits

Swedish Reforms

- Lower after-tax replacement rates
- Tightened eligibility criteria
- Better integrated gatekeeper decision-making for work and cash transfers by combining their sickness and long-term disability systems ensuring earlier work-based interventions

Trends suggest policy driven

Evidence of policy influence

- Variation in state allowance rates (*Wall Street Journal*)
- Private employers/insurance agents assisting their disabled workers onto the SSDI rolls (*New York Times*)
- States assisting single mothers with disabled children onto the SSI rolls (*Boston Globe*) (NPR)
- SSDI/SSI awards to mental & musculoskeletal growing
- Growing number meeting lower vocational criteria
- Growing number only qualifying at the ALJ stage
- Maestes, Mullen, and Strand (AER 2013): 23% by chance.

Fundamental SSDI Reforms Necessary

- **SSDI was intended as a “last resort” income transfer program** that is increasingly being used as a long-term unemployment program for people who could work (**23 percent of new beneficiaries are there by chance**)
- **Bend the cost curve of SSDI by experience rating SSDI payroll taxes** (based on Dutch experience this will significantly increase accommodation and rehabilitation of workers and slow their movement onto the long-term SSDI rolls).
- By linking employer premiums (taxes) more directly to actual firm/worker outcomes, it rewards firms with lower than average use of SSDI and punishes firms with higher than average use of SSDI.

Fundamental SSI Reforms Necessary

- **SSI is primarily a welfare program**
- Little difference between poor single mother TANF population and poor primarily single mother with disabled children population
- **Use experience of TANF pro-work reforms to reform SSI**
- Unify welfare policy at the state level and end state cost shifting of poor with disabilities to the federal government by devolving SSI to the states with appropriate safeguards and focus on returning able-bodied parents to work and providing necessary accommodations for disabled children
- Allow states and other agents to experiment and innovate as in pre-welfare reform trials—disabled workers earnings tax credit, childcare, etc.