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Social Security Disability Insurance:

An Entitlement In Need of Reform

Written By Andrew G. Biggs
Edited by MacMillin Slobodien

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Our Generation is a membership-based nonprofit, nonpartisan advocacy organization founded in 2009 to research, educate and promote long-term free market solutions to today's public policy concerns.

108 N. Alfred St. Lower Level
Alexandria, VA 22314
(571) 431-7420
ourgeneration.org

Summary

Social Security's Disability Insurance (SSDI) program began modestly, but grew over time. When introduced in 1956, SSDI provided benefits only for permanently disabled workers over the age of 50 with a substantial work history. Over time, this program has grown dramatically, and today the fastest-rising cost for Social Security is not the retiring Baby Boomers but skyrocketing Disability Insurance benefits. In 1970, the Disability Insurance program could be financed with a payroll tax rate of only 0.8 percent of wages; today, the cost of SSDI has tripled relative to the 1970 level. Disability benefits now make up 18 percent of all Social Security costs, up from only 10 percent in 1990. In fact, the number of people on SSDI in 2012 exceeds the entire population of New York City at 8,733,461 participants. [1] The SSDI program is already running deficits – meaning it pays out more in benefits than it collects in payroll taxes – and its trust fund is projected to run out in 2017. Recent research has shown that the rising cost of SSDI is not principally the result of an increase in disabling illnesses but policies that make qualifying for benefits easier. These policies open benefits to the more marginally disabled, raising costs for taxpayers. Part of the solution to rising SSDI costs is to tighten eligibility requirements to focus resources on the most disabled individuals, coupled with incentives to employers to keep disabled individuals working and therefore out of the program. Some proposed reforms have included the following:

- Tighten eligibility requirements and conduct Continuing Disability Reviews of existing beneficiaries to reassess their disability status;
- Include greater oversight power for SSA by administrative law judges who make SSDI decisions;
- Add "experience rating" for disability payroll taxes so employers who can keep individuals with disabilities on the job will be rewarded with lower taxes, while those who shift workers onto SSDI will pay more; and
- Require employers to carry private disability insurance to cover benefits for a short period until Social Security SSDI takes over.

1. "8,733,461: Workers on Federal 'Disability' Exceed Population of New York City." Terence P. Jeffrey, CNSnews.com. Monday, July 2,2012.

Growth of Social Security Disability Insurance

Americans are increasingly alarmed by newspaper headlines highlighting abuses in the SSDI program. Such headlines include a diaper-wearing "adult baby" who receives disability benefits despite carpentry skills that allow him to build (adult-sized) children's furniture.[2] Another instance, a high-ranking disability judge who approved 96 percent of applications which come before him, saying of other less-generous judges, "Some of these judges act like it's their own damn money we're giving away."[3] And there are even stories of doctors who diagnose disability for hundreds of applicants en masse, as was recently investigated in Puerto Rico.[4]

These are serious issues. The credibility and the finances of the SSDI program depend upon ensuring that only truly disabled individuals receive benefits. But there are even more worrying facts when one takes a closer look.

In 2010, one out of every 50 American workers applied for Social Security Disability Insurance.[5] More recently, in June 2012, more Americans entered the disability rolls than found new jobs.[6] Of the roughly half of applicants who are eventually granted benefits, few will ever return to the workforce. The remaining half that is ultimately rejected for benefits will, nevertheless, spend several years out of the workforce pursuing their disability claims, during which time their job skills erode—hurting their prospects for re-employment and harming the productivity of the U.S. workforce.

Unbeknownst to most Americans, the fastest rising cost for Social Security isn't retiring Baby Boomers, but skyrocketing Disability Insurance benefits. Disability benefits now make up 18 percent of all Social Security costs, up from only 10 percent in 1990. The SSDI program is already running deficits – meaning it pays out more in benefits than it collects in payroll taxes – and its trust fund is projected to run out in 2017, after which time--by law--benefits must be reduced across the board by 14 percent.

Over the past two decades, the share of working age Americans collecting disability insurance payments has doubled, from 2.3 to 4.6 percent of the population aged 25 to 64, with the largest increases occurring among women. As a result, inflation-adjusted SSDI outlays have roughly tripled over that time to over $125 billion in 2010, with at least $70 billion more in annual Medicare expenditures on the disabled. SSDI may not receive the same level of public attention as the retirement portion of Social Security, but it is clearly a large program both in terms of its costs to the taxpayer and its impact on Americans' lives.

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2. "Adult baby' Stanley Thornton Jr. will still receive Social Security checks following probe." Philip Caulfield. *New York Daily News*. Thursday, October 20, 2011.

3. "Disability-Claim Judge Has Trouble Saying 'No'." Damian Paletta. *Wall Street Journal*. May 19, 2011.

4. *The Wall Street Journal*. "Puerto Rico Disability Claims Probed." September 11, 2011.

5. Author's calculations from 2012 Social Security Trustees Report data.

6. John Merline. "Disability Ranks Outpace New Jobs In Obama Recovery." *Investor's Business Daily*. July 6, 2012.

Disability rolls and associated costs are only projected to rise. By 2030, 7 percent of all workers covered by the Social Security program are projected to be on the disability rolls, according to the Social Security Administration. Also by that year, the real-dollar costs of SSDI will increase by nearly 50 percent versus 2010 levels, to almost $190 billion annually.[7]

Why have disability costs risen so fast? Some factors are relatively innocuous, such as the aging of the population or greater female labor force participation, which makes more women eligible for SSDI benefits. But a major factor is looser eligibility standards passed by Congress in the 1980s, which expanded the types of ailments that can be covered and put an emphasis on evidence presented by applicants' own doctors rather than the SSA's experts. Likewise, increasing numbers of SSDI applicants are represented by lawyers, with the result that SSA loses two-thirds of appeals against denied benefits. Economists David Autor of MIT and Mark Duggan of the Wharton School conclude in their study, "The rapid growth of Disability Insurance does not appear to be explained by a true rise in the incidence of disabling illness, but rather by policies that increased the subjectivity and permeability of the disability screening process."[8]

History of SSDI

Like many government programs, SSDI program began modestly, but morphed over time. When introduced in 1956, DI provided benefits only for permanently disabled workers with a substantial work history who were over the age of 50. But in the late 1950s and the 1960s the program would see drastic changes made by a Congress willing to create a new safety net. In 1958, the program was expanded to provide benefits for dependents of disabled workers. In 1960 the minimum age restriction for SSDI benefits was eliminated. The Social Security Amendments of 1965 eliminated the requirement that disability be permanent, substituting a requirement that the individual be unable to work for 12 or more months. Moreover, during the 1960s court judgments made it easier to qualify for SSDI benefits by, for instance, placing a greater burden on the government to illustrate jobs for which applicants might be hired or limiting the geographic region in which potential jobs might be located. The Social Security Amendments of 1967 allowed for benefit payments to disabled widows aged 50 or older.

More broadly, disability benefits were increased along with the rest of the Social Security program. Over a typical applicant's lifetime, total Disability and accompanying Medicare benefits are worth approximately $300,000 in today's dollars. This makes SSDI benefits more

7. Author's calculations from 2012 Social Security Trustees Report.

8. Autor, David H. and Duggan, Mark G., The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding (July 28, 2006). MIT Department of Economics Working Paper No. 06-23.

attractive, particularly to lower-skilled individuals whose wages have risen more slowly than those of better-educated workers.[9]

The rise in the SSDI caseload is not principally attributable to poorer health within the working age population. According to data from the National Center for Health Statistics, the share of 55 to 64 year olds reporting themselves to be in fair or poor health declined from 25 percent to 18 percent from 1983 to 2007, with a smaller but still significant drop for individuals aged 45 to 54. Similarly, the share of working age individuals reporting a disability that either limits work or prevents them from working has remained relatively stable over the past three decades, according to Census Bureau data.

The problem, therefore, is not so much greater disability in the population as it is fewer people with disabilities participating in the workforce. Therefore, it follows that more disabled people are receiving government benefits. The percentage of individuals reporting disabilities who are employed dropped from 29 percent in 1989 to approximately 16 percent today.[10] Moreover, in 2010 approximately 23 percent of working age individuals with self-reported disabilities worked more than 52 hours in the prior year, versus 38 percent in 1990.[11] This means that three out of four individuals with self-reported disabilities were out of the labor force for essentially the entire year, a time during which work-related skills and contacts erode. For these individuals, prospects for a successful return to employment are grim, even in a strong economy. If marginally disabled individuals may have been employable when they entered the program, after a period of time on SSDI, they may no longer be attractive to employers.

Now, approximately 5.9 percent of working age Americans are receiving some form of disability benefit, either SSDI or Supplemental Security Income. This places the U.S. on par with countries such as Belgium, and above France, Greece, Germany and Italy. The U.S. ranks 18th out of 27 developed countries in the percentage of individuals with disabilities who are employed, showing there is considerable room for improvement.[12]

While SSDI benefits have grown more attractive, this is not a sufficient explanation to the rising numbers of Americans receiving disability benefits. After all, applicants must be approved for SSDI and it is not an easy process. In the disability application process, the first review – or "determination" in Social Security jargon – is made by a state government employee based upon a review of the application excluding an in-person hearing with the applicant. If denied at this

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9. Autor, David H. and Duggan, Mark G., The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding (August 2006). NBER Working Paper Series, Vol. w12436, pp. -, 2006.

10. Source: Current Population Survey.

11. Source: Current Population Survey.

12. Source: Table 14.1. Employment Rates of Working-Age People with Disabilities in Selected OECD Countries. www.DisabilityCompendium.com stage, the applicant may pursue "reconsideration" of their claim via an appeal to an administrative judge, to whom they can present witnesses, additional evidence, and so on.

Unfortunately, this process does not necessarily produce consistent results – that is, in ensuring that those who truly are disabled receive benefits while those who aren't disabled are denied. Research conducted by the RAND Corporation shows that roughly one quarter of current SSDI applicants are only marginally disabled, meaning they are accepted or denied for benefits based only on the idiosyncrasies of the examiner who handled their case.[13] Critical to understanding these issues is the fact that today over half of the new DI awards are based on either mental or musculoskeletal disorders, up from around one-fifth in the late 1960s. These ailments are notoriously difficult to prove or disprove. This leaves the application process open to more human error, and creates more potential for waste, fraud, and abuse.

SSA data show wide variations in the rates at which different SSDI judges award benefits. According to SSA Commissioner Michael Astrue, 130 of 1,500 Social Security judges awarded benefits to more than 85 percent of applicants. This high rate of approval, costs taxpayers $1 billion a year more, relative to typical approval rates. Unfortunately, Commissioner Astrue has very limited legal power to intervene, even in cases where judges' approval rates are far above the norm.

This issue recently came to a head in the case of SSA administrative judge David B. Daugherty, who oversaw cases in the states of West Virginia, Kentucky and Ohio. In the year ending September 2010 Daugherty decided 1,284 cases and awarded benefits in all but four. In the first six months of fiscal year 2011, Daugherty approved payments in every one of his 729 decisions, spurring an SSA investigation that eventually led to his suspension. Daugherty was one of the most "productive" SSA judges in the country in terms of cases decided, often taking cases away from junior judges in his office, but his extremely high approval rates have likely cost taxpayers millions. *The Wall Street Journal* reported that, according to office staffers, many of the cases Daugherty took on were from a single prominent disability lawyer. While nothing has yet been proven, it has been reported that other judges and staff were reportedly suspicious and critical of his methods. But apart from truly egregious cases such as this, the SSA commissioner has very limited powers to overrule administrative judges' decisions. A Government Accountability Office investigation of SSDI approval practices could pave the way for potential legislation to strengthen the Commissioner's ability to oversee the program.

RAND's research found that many marginal applicants could and would continue to work except for the provision of SSDI benefits and the rules under which they are paid. These applicants, who are

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13. Maestas, Nicole, Mullen, Kathleen J. and Strand, Alexander. "Does Disability Insurance Receipt Discourage Work? Using Examiner Assignment to Estimate Causal Effects of SSDI Receipt?" (May 1, 2011). Michigan Retirement Research Center Research Paper No. WP 2010-241.

predominantly younger, suffer from mental disorders and have low incomes, but could remain on the job if given the proper assistance and incentives. Other studies have reached similar conclusions.[14]

Solutions

The loosening of SSDI eligibility standards by Congress in the 1980s was a reaction to steps taken in the Reagan administration to tighten eligibility requirements. Part of the solution to rising SSDI costs is certainly tightening eligibility requirements and conducting Continuing Disability Reviews of existing beneficiaries to reassess their disability status. This change would help combat abuse in the system. Other steps include greater oversight power for SSA over administrative law judges who make SSDI decisions. But these steps alone won't fix the problem.

Comprehensive SSDI reform should also include incentives for employers to keep individuals with disabilities on the job. For instance, economists Richard Burkhauser of Cornell and Mary Daly of the Federal Reserve would provide "experience rating" for disability payroll taxes. Employers who can keep individuals with disabilities on the job will be rewarded with lower taxes, while those who shift workers onto SSDI will pay more. This approach recognizes the fact that once an individual goes on the SSDI rolls, he or she is very unlikely to ever return to the workforce. An alternate approach, from David Author of MIT and Mark Duggan of the Wharton School, would require employers to carry private disability insurance to cover benefits for a short period until Social Security SSDI took over. This would give employers the incentive to accommodate workers with disabilities so that they might remain in the workforce, which is the best outcome both for the worker and for Social Security.[15] Also, employers and private insurance companies are much more likely and better able to police fraud than the federal government. These reforms build off those enacted in the Netherlands, which once had among the highest disability rates in the world but through a series of reforms beginning in the late 1990s reduced its disability inflow rates by roughly 60 percent.[16]

Conclusion

Disability Insurance reform presents a rare opportunity for bipartisan cooperation on entitlements, as serious researchers from across the spectrum recognize the program's precarious finances, agree on the forces driving rising SSDI costs, and agree that reform must improve incentives to keep disabled workers on the job instead of merely off the SSDI rolls. In addition, given the increasingly troubled financial outlook for entitlement programs in the United States, SSDI reform presents

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14. Benitez-Silva, Hugo, Rust, John P. and Buchinsky, Moshe, How Large are the Classification Errors in the Social Security Disability Award Process? (January 2004). NBER Working Paper Series, Vol. w10219. 2004.

15. Autor, David, and Mark Duggan. "Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System." The Center for American Progress/Hamilton Project, 2010.

16. Van Sonsbeek, Jan-Maarten and Gradus, Raymond. "Estimating the Effects of Recent Disability Reforms in the Netherlands" (August 12, 2011). Tinbergen Institute Discussion Paper No. 11-121/3.

an opportunity to save the larger Social Security system. While the SSDI program is a separate trust fund from the retirement component of Social Security, any savings from reforming the SSDI program could help return the traditional old-age program to solvency. It is difficult to quantify precisely how much could be saved through these various reforms. However, if it were possible that reform could reduce disability costs to SSA's "low cost scenario" -- a scenario the agency believes has a low probability of occurring without reform, but might be achievable with the steps outlined above -- the real-dollar costs of the SSDI program could be stabilized over time. This would save roughly $50 billion annually by 2030, enough to erase around 11 percent of Social Security total long-term deficit.

This issue brief was written by Andrew G. Biggs, resident scholar at the American Enterprise Institute in Washington, D.C. Prior to joining AEI he was the principal deputy commissioner of the Social Security Administration (SSA), where he oversaw SSA's policy research efforts and led the agency's participation in the Social Security Trustees working group. He holds a Bachelors degree from the Queen's University of Belfast, Masters degrees from Cambridge University and the University of London and a Ph.D. from the London School of Economics.

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