The Sharp Rise in Disability Claims

Are federal disability benefits becoming a general safety net?

BY JOHN MERLINE

One of the often-told stories of the anemic economic recovery has been the dreary prospects for workers. As of July 2012, there were 811,000 more long-term unemployed than when the recession officially ended in June 2009, and there were 412,000 more who had given up looking for work. The Bureau of Labor Statistics' expanded unemployment measure was 15 percent in July 2012.

As a result, discouraged workers are increasingly dropping out of the labor force. While the number of people with jobs has climbed 2.7 million since June 2009, the pool of Americans who aren't in the labor force at all has shot up by 7.5 million.

A great many of these people will likely never come back to the workforce even if the economy does rebound: not because they've aged into retirement but because they've signed up instead to get disability benefits — joining the federal government's Social Security Disability Insurance (SSDI) program. This program, started in the late 1950s, was meant to provide much-needed benefits to those who were too disabled to work, but weren't yet eligible for Social Security benefits. The current massive exodus of workers to the disability rolls could have worrisome implications for the solvency of the SSDI program — which is scheduled to become insolvent in less than four years — as well as the federal government's broader entitlement spending problem. The shift could also cut the growth potential of the U.S. economy by permanently shrinking the available pool of labor.

How a Law Changed Incentives

The scale of the issue is significant. In just the first six months of 2012, almost 1.5 million workers applied to get into the SSDI program. That's more than applied in the entire year in 1998. Last year, SSDI received 2.9 million applications, which is nearly double the figure from a decade earlier. Since the economic recovery started, more than 8 million have applied for disability benefits. If recent history is any guide, more than a third of those who apply will get on the program within months.

As a result, the number of SSDI enrollees is climbing quickly. Through August of this year, more than 653,000 workers were awarded disability benefits, and over the past three years, more than 3 million joined the program. Even after accounting for those who exit SSDI — either because they age into retirement, die, or are removed from the program — the number of workers on disability has climbed by more than 1.1 million since June 2009, a 15 percent increase.

Today, there are 6.6 people on disability for every 100 people actively working. That's double the ratio from 20 years ago, and almost three times what it was in 1972. Consequently, spending on the program has more than doubled in the past decade, and SSDI now accounts for almost 20 percent of Social Security's budget, up from 10 percent in 1988.

The recent growth in SSDI is part of a longer-term trend. After remaining relatively flat throughout the 1980s, enrollments and costs started their upward march in the early 1990s (see charts). Coincidentally, that was just about the time President George H.W. Bush signed the Americans with Disabilities Act, a law designed to end discrimination against disabled workers and provide them more opportunities to stay in the workforce.

The growth comes despite the fact that the physical demands of most jobs have decreased, the average health of adults has improved, and prevalence of mental disorders in the country hasn't changed, while treatments for mental illnesses have greatly expanded. Research by Mark Duggan of the University of Pennsylvania and Scott Imberman of Michigan State University found, for example, that the health of adults between ages 50 and 64 showed substantial improvement between 1984 and 2004.

Nor does the aging of the U.S. population appear to be responsible. In fact, the average age of those awarded SSDI benefits is lower than it was in the 1980s for both men and women. The average age dropped to 49.5 in 2010 for men, from 51.2 in 1980; among women the average age fell to 48.8 years from 51.1. Almost 53 percent of men awarded SSDI benefits in 1980 were over age 55. By 2010, only 42 percent were. Among women, 51 percent of those who enrolled in 1980 were over age 55, but just 36 percent were in 2010.

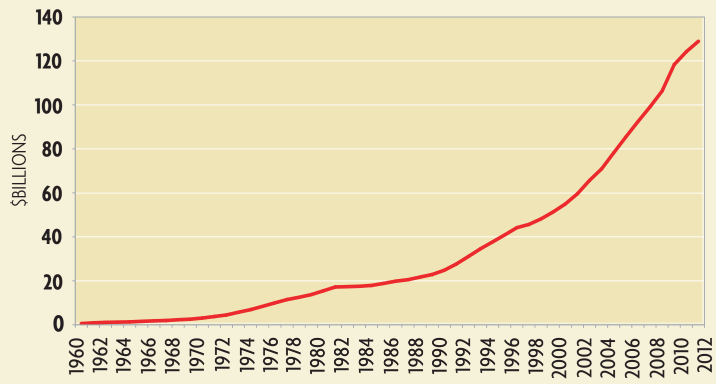
What, then, explains the rapid rise in the ranks of the disabled? The biggest driver seems to have been a change in the eligibility rules enacted in 1984. When the program was added to Social Security, the goal was to have it provide early retirement benefits for those were "totally and permanently disabled."

But the 1984 change "substantially liberalized the disability screening program," according to economists David Autor of MIT and Duggan in their extensive review of the program. The reforms shifted screening rules from a list of specific impairments to a process that put more weight on an applicant's reported pain or discomfort, even in the absence of a clear medical diagnosis. In addition, workers could qualify if they had multiple conditions that affected their ability to work, even if none of the conditions was disabling on its own.

Not surprisingly, more and more workers were awarded disability benefits based on ailments that relied more on patient self-reporting and that often were not easily diagnosed independently. For example, "musculoskeletal and connective tissue" problems, which includes back pain, accounted for just 17 percent of new enrollees in 1981, but 33 percent in 2010. The share of awarded benefits based on mental disorders — ranging from schizophrenia to mood disorders such as depression and bipolar disorder — climbed from 10 percent in 1981 to 21 percent in 2010. Mood disorders alone now account for 15 percent of all workers currently on disability.

Another driving force, Autor and Duggan found, is the fact that the value of disability benefits relative to wages has risen "substantially" since the late 1970s, because of the way initial benefits are calculated. That's particularly true at the lower end of the income spectrum. When the value of SSDI benefits and the value of the Medicare benefits that SSDI enrollees qualify for are combined, the share of income replaced by the disability program climbed from 68 percent in 1984 to 86 percent in 2002 among lower-income men aged 50-61. A possible indicator of the effect this has had, Autor and Duggan note, is that "the increase in [SSDI] enrollment during the last two decades was largest for those without a high school degree."

Federal Spending on Worker Disability (SSDI) Benefits



SOURCE: Social Security Administration

The Recession's Role

Still, there's little question that the last recession and the painfully slow recovery have contributed significantly to the program's growth in the past four years. According to data from the Social Security Administration, disability awards were climbing at an average annual rate of less than 2 percent between 2003 and 2007. But they shot up 8.7 percent in 2008, 10 percent in 2009, and 6.8 percent in 2010.

"The very recent recession of 2008-2009 resulted in an increase in disability incidence that was exceeded only by the incidence rate in 1975," Social Security Administration Chief Actuary Stephen Goss told a congressional panel in December. He added that "when employment is good, when employers are trying to employ lots of people, people with impairments, like everyone else, find it easier to find a job."

But when employment opportunities are scarce, some people who otherwise could work apply for disability instead. Duggan, for example, estimates that the higher unemployment rate in 2011 contributed to 3,000 more people applying for SSDI each week than would otherwise have occurred.

This is compounded by the fact that there are so many workers who, despite repeated extensions, have exhausted their unemployment insurance benefits. Matthew Rutledge, a research economist at Boston College's Center for Retirement Research, found that the unemployed are less likely to apply for disability when their unemployment benefits get extended, but are "significantly more likely to apply" when those benefits run out.

What's more, disability applications are continuing to go up even as the unemployment rate falls modestly, according to the Congressional Budget Office. Because of this, the CBO projects that the number of people on disability will "continue to rise over the next few years by more than otherwise would have occurred."

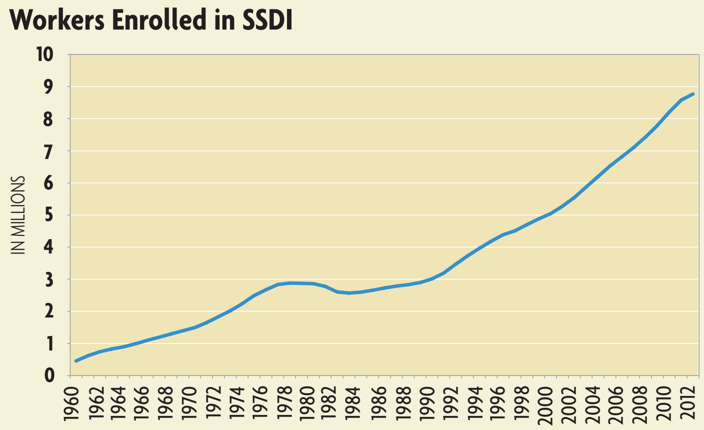
The fast-growing ranks of enrollees are putting increased financial strain on SSDI. According to the latest report from the Social Security actuaries, SSDI is currently scheduled to exhaust its trust fund in 2016, which is two years sooner than the program projected just a year before. The growth in SSDI enrollees is also accelerating the drive of Medicare toward financial distress; that's because after two years, disability enrollees qualify for Medicare coverage. By 2009, SSDI accounted for $70 billion of Medicare's budget, according to the CBO.

Then there's the economic impact of all these lost workers. Several experts who've examined the SSDI program have come to the same conclusion: Workers who get on federal disability almost never come back to work.

As Autor put it, "the program provides strong incentives to applicants and beneficiaries to remain out of the labor force permanently, and it provides no incentives to employers to implement cost-effective accommodations that would enable disabled employees to remain on the job."

Moreover, SSDI can keep workers from reentering the labor force for months, and sometimes years, as they work through the approval process, since by definition they can't get disability if they are still working. A little more than a third of those who apply get on the program within four months. Among those who are rejected, more than half appeal, a process that can take years to complete, during which time the applicants have to stay out of the job market. But since judges overturn the initial rejection 75 percent of the time, it's not surprising that so many stick it out.

At the same time, the lengthy approval process can impose serious financial harm on those in need. James Allsup, founder and CEO of Allsup, an SSDI representation company, told the House Ways and Means Committee, "An overwhelming majority of SSDI applicants face grave financial and personal setbacks while stuck in the federal disability backlog, including worsening illness, drained retirement funds or other savings, the loss of existing health



NOTE: 2012 figure through August
SOURCE: Social Security Administration

insurance, missed mortgage payments, and even foreclosure and bankruptcy."

The loss of all these workers — at least some of whom presumably could continue to be productive members of the labor force — can have a deleterious effect on the economy, "resulting in a loss to society of the economic contributions those workers could have made," according to a White House report.

How to Protect SSDI?

Despite these mounting problems, there seems to be relatively little discussion among policymakers about reforming SSDI. Reform is possible, however. That, at least, is the lesson taught by the Netherlands, which confronted a similarly difficult disability problem. The country enacted a series of reforms in the 1980s and 1990s, which included benefit cuts as well as incentives for employers who were asked to bear some of the costs of disability claims by their workers. In addition, a 2002 reform required employers and workers, along with a consulting physician, to put together return-to-work plans. These and other changes resulted in a sharp drop in the number of Dutch signing up for the country's disability program in the past decade.

In the United States, some suggest that Congress could resolve the problem simply by dedicating more of the money that comes in through the Social Security payroll tax to the disability program. Currently, SSDI is financed through a 1.8 percent payroll tax, which is part of the overall Social Security tax. "The current SSDI revenue problem could be solved by this type of small adjustment," David Heymsfeld, a policy adviser for the American Association of People with Disabilities, wrote in June on the group's blog.

While technically true, shifting money into the Disability Insurance program would also hasten the day when Social Security becomes insolvent (which is currently expected to occur in 2035), because it would take money currently dedicated to the Social Security trust fund and use it to pay disability benefits. At the same time, shifting the money around would do nothing to resolve the disability program's unsustainable growth trend.

Congress has a host of other changes it could make to the program that would reduce SSDI's enrollment and cost growth, according to academic and government analysts, although each could give rise to questions of fairness. Among the options would be simply to return to the pre-1984 eligibility rules, making it harder for people to get on the program without a specific medical diagnosis. Congress could also reduce the benefit amounts, which would in turn make SSDI a less viable alternative than work for those who are able to perform a job. Or it could restrict benefits based on income and assets.

Still another option would be to move more people off SSDI through what are called "Continuing Disability Reviews." Aggressive CDRs from 1980 through 1983 cut the disability rolls by about 10 percent. It's worth noting, too, that this decline occurred during the very deep and painful 1981-82 recession, which lasted 16 months and pushed the unemployment rate up to 10.8 percent.

Autor and Duggan have suggested a more comprehensive front-end approach, one that extends existing private disability insurance (PDI) into a universal PDI plan along the lines of unemployment insurance. The expanded PDI would provide partial income replacement, rehabilitation services, and other help for up to 24 months, all geared toward keeping those with partial disabilities in the workplace, or transitioning them to other suitable jobs. But the proposal is not without its own challenges, since it would be complex and would likely meet resistance from business communities required to buy the insurance.

The bottom line, though, is that once the SSDI Trust Fund is exhausted in 2016, Congress will have to act in one way or another to keep the program functioning and assisting the disabled who need the help. **RF**

Readings

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