Disability: Inherent Problems, Practical Solutions and Action for Reform

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Hypothesis:

Disability approvals have expanded to enroll many individuals who are capable of working full time or part time in the private economy.
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)
Premise: Work Should be Expected

New vision of the rights and responsibilities of working-age people with disabilities

• 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?
Is change possible?
Can People with Disabilities Work?

- Impairments and work limitations matter
- Social environment also matters
- Accommodation
- Rehabilitation
- Public Policies (SSDI/SSI)
## Employment and SSDI/SSI receipt of those with work limitation

<table>
<thead>
<tr>
<th>Year</th>
<th>Work limitation prevalence</th>
<th>Employed Last Week</th>
<th>SSDI/SSI receipt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>7.9 %</td>
<td>26.1%</td>
<td>34.4%</td>
</tr>
<tr>
<td>1990</td>
<td>7.4 %</td>
<td>30.4%</td>
<td>35.1%</td>
</tr>
<tr>
<td>2012</td>
<td>8.6 %</td>
<td>15.1%</td>
<td>51.6%</td>
</tr>
</tbody>
</table>

Source: Burkhauser, Houtenville and Tennant (forthcoming) (calculations using March CPS-ASEC data)

Note: Sample limited to civilian non-institutional population age 25-61
Market Income Down, SSDI/SSI and Medicare and Medicaid Up
SSDI/SSI and Medicare/Medicaid Expenditures on working-age people with disabilities (1980-2012)
What Has Driven SSDI Growth?

Exogenous to DI Program Factors

• Aging of the population (Baby boomers)
• Changes in Retirement Age
• Entry of women into the labor force sufficient to gain SSDI coverage/prevalence catch up

• Office of the Actuary calculations
Sources of SSDI Recipiency Growth, 1980-2011

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in retirement age</td>
<td>9.1</td>
</tr>
<tr>
<td>Aging of the population</td>
<td>17.9</td>
</tr>
<tr>
<td>Women's labor force</td>
<td>29.2</td>
</tr>
<tr>
<td>Prevalence Catch-Up</td>
<td>12.8</td>
</tr>
<tr>
<td>SSDI Eligibility</td>
<td>16.5</td>
</tr>
<tr>
<td>Residual</td>
<td>43.8</td>
</tr>
</tbody>
</table>

Source: Daly and Lucking (2013)
DI Prevalence by Age
Selected years

Source: Census Bureau, Social Security Administration and Haver Analytics
Figure 1. Scenarios of Future SSDI Growth
(Recipiency rate)

Sources: Short-Range Actuarial Projections of the Old-Age, Survivors, and Disability Insurance Program (2010), Census Bureau, and authors’ calculations.
Figure 2. Past SSA Projections of SSDI Receipt
(Recipiency rate)

Sources: Short-Range Actuarial Projections of the Old-Age, Survivors, and Disability Insurance Program, Census Bureau, and authors' calculations.
Note: 1985 and 1986 data for the series "Below 150% FPL" and "Below 200% FPL" only related children.
What Has Driven SSDI Growth?

Others Exogenous to Program Factors

• Changes in underlying severity of disability
Percentage of U.S. Residents Reporting Fair or Poor Health, by Age Group, over Time
Percentage of U.S. Residents Reporting a Work Limitation, by Age Group, over Time
What Has Driven Program Growth?

Endogenous to Program Factors

• Changes in SSDI/SSI rules
• Changes in administrative enforcement
• Behavioral Consequences of Failure to properly assign real costs of DI to employers
• Behavioral Consequences of Failure to properly assign real costs of SSI-disability to States
What Has Driven Program Growth?

Endogenous to Program Factors

• Changes in SSDI/SSI rules
Rise in Acceptance of More Difficult to Measure Medical Conditions (SSDI)

Percentage of SSDI Benefits Awarded for Mental and Musculoskeletal Conditions over Time

Source: SSA 2009b.

From: Burkhauser and Daly 2011
Rise in Acceptance of More Difficult to Measure Medical Conditions (SSDI)

28a. DI Worker Beneficiaries

- Intellectual disability: 365,957 (5%)
- Other mental: 2,325,682 (28%)
- Musculoskeletal: 2,316,896 (28%)
- Circulatory system: 707,291 (9%)
- Nervous systems and sense organs: 770,551 (9%)
- Other: 1,717,574 (21%)

Source: SSA 2012
Rise in Acceptance of More Difficult to Measure Medical Conditions (SSI-Kids)

• Other Medical Conditions have increased from 5 percent in 1983 to 55 percent in 2009
• Sullivan vs. Zebley Case 1990 expansion of vocational consideration condition to equal that of SSDI
What Has Driven Program Growth?

Endogenous to Program Factors

• Changes in administrative enforcement
Growing Use of Vocational Consideration (SSDI)

Since 1983, the percentage of initial level DI cases awarded on the basis of meeting the medical listings has declined from 72 percent to 38 percent, while the percentage of cases awarded on the basis of equaling the listings has remained relatively flat. The percentage based on vocational (or functional) evaluation has tripled, from 18 percent of all initial DI awards in 1983 to 54 percent in 2010. This increase corresponds to an increase in the number of DI cases where musculoskeletal and mental impairments were alleged and vocational evaluations are more likely to be required for these cases. Further, there were many policy changes in the 1980s stemming from court cases and legislation that directly affected how decision makers assessed functional capacity (See pages 91–93).
Growing Use of Vocational Consideration (SSI-Kids)

• “Functional Equals Listings” has increased from around 5 percent in 1992 to just under 50 percent in 2008.
Result: Increasing Number of Marginal DI Cases Considered and Accepted

- 23 percent of applicants are marginal entrants
- DI acceptance causes a 21 percentage point fall in employment vs. DI rejected control group
- Marginal treatment effects vary:
  -- least severely impaired (60 percentage point fall)
  -- most severely impaired (10 percentage point fall)

Maestes, Mullen, and Strand (2013) AER
Maestes (March 2012 Ways and Means Testimony)
Program Now More Sensitive to Economic Conditions

• Record number of SSDI applications and acceptances in the aftermath of the Great Recession

• But underlying causes of secular increase will remain
DI Applications and the Unemployment Rate

Per 1,000 Persons Age 25-64

Unemployment Rate (right axis)

SSDI Applications (left axis)

Source: SSA, Census Bureau, and Bureau of Labor Statistics
What Has Driven Program Growth?

Endogenous to Program Factors

• Behavioral Consequences of Failure to properly assign real costs of DI to employers
Failure to Assign Marginal Costs of DI to Employer

- Firm’s payroll tax does not vary with workers disability risk so employers.
- This reduces their willingness to provide accommodation/rehabilitation.
- Employers who offer private DI lower their costs by moving disabled workers to SSDI.
- *NY Times* story
What Has Driven Program Growth?

Endogenous to Program Factors

• Behavioral Consequences of Failure to properly assign real costs of SSI-disability to States
Failure to Assign Real Costs of SSI to States

Welfare Reform in 1996 provides block grants to States that are not decreased when:

• States move a low income single mother onto the SSI-disabled adults program.
• States move the child of a low income single mother onto the SSI-kids program.
Additional Actors

• Lawyers now provide their services to DI applicants contingent on success.
• Firms specializing in placing TANF populations on SSI now provide these services to States.
• Parents of SSI-disabled kids lose benefits if child improves in school
• *This American Life* story
Fundamental DI Policy Flaw

• DI envisioned as a “last resort” benefit after all other return to work activities had failed.
• SSA does not manage cases at work limitation onset when work treatments most successful
• Employers encouraged to move disabled workers onto DI
Solution

• Place the real costs of moving onto to SSDI on employers via experience rating.
• Employers/Private Insurance Companies are best positioned to evaluate benefit vs. work-based treatments as soon as medical issues are stabilized.
• Employers will now be encouraged to slow movement onto SSDI rolls—Work First
Fundamental SSI Policy Flaw

• SSA should never have been chosen as agency to administer SSI.

• SSI is a welfare program closer to TANF than Old-Age Insurance in design.

• States now encouraged to move their TANF populations onto SSI
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.
Solution

Devolve SSI to States along TANF lines via block grants

• Places the real costs of moving onto SSI on the States
• States have proved successful in managing low income TANF populations
• States now have skin in the game. Will move single mothers into work and children into work, once they reach working age.
Policy Reform is Possible

• OECD countries
• The case of The Netherlands
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
Caseloads Fell Following Reforms

Annual average growth of disability benefit caseloads, before and after 2007

Stemming Inflows Most Important

Inflows to disability benefits per 1000 working-age

U.S. SSDI and SSI-Disabled Beneficiaries and Dutch Disability Beneficiaries per 1000 Workers (Aged 15-64)
• 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.
Experience Rate SSDI

• Cost-neutral alternative to payroll tax if no behavior changes but will bend the SSDI cost curve if it results in expected behavioral changes.
• 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.
• It also forces consumers to pay the true cost of creating the products
• Internalizing true costs of labor used in the production of these products. Price of products produced by higher users of SSDI will rise relative to products of lower users of SSDI.

Burkhauser and Daly (2010)
Expected Firm Behavioral Outcomes

Greater Monitoring and Management of Long Term Disability Benefit Risk

• Increase demand for private disability insurance
• Increased demand for high quality case management services to lower overall costs
Expected Firm Behavioral Outcomes

Preventive Measures

• Improve safety in the workplace.
• Increased use of healthy living programs.
• Greater concern with life styles of employees.

More Timely Evaluation of Alternatives to SSDI

• Increase use of disability management agents at the time of onset of a work limiting impairment.
Expected Firm Behavioral Outcomes

• Because source of a worker’s impairment less relevant to employers they will expand WC management efforts to all work limited workers
• Greater use of accommodation and rehabilitation
• Less interest in moving their workers onto SSDI
• Greater care in who they hire

Unless prohibited from doing so or incentivized not to do so, employers will be less likely to hire workers whose risk of moving onto the SSDI program is great.
Alternatives to Offset Statistical Discrimination

• Increase enforcement of the ADA (stick)
• Exempt workers with known disabilities from being in experience rating pool (carrot)
• Provide credits to firms who hire such workers (carrot)
Actions to be considered

• End SSA demonstrations testing the efficacy of policy options encouraging those currently on the SSDI rolls to leave (TOO LATE)
• Focus on testing the efficacy of experience rating or other policies increasing the use of accommodation and rehabilitation well before workers apply for SSDI benefits
Actions to be considered

• Fund efforts to find best practice use of experience rating either among State Workers’ Compensation Systems or in other countries

• Hold hearings involving private long term disability insurers in best practice use of disability case management systems
Actions to be considered

- Estimate the consequences of implementing a best practice experience rating system to fund SSDI and its distribution of costs across industries, occupation, and the socio-economic characteristics.
- Determine the costs of providing exemptions from inclusion in a firm’s experience rated pool of those with high risks of movement onto the SSDI rolls.
- Evaluate how an experience rated SSDI program could be integrated with State WC plans.