Supporting Work –
A Proposal to Modernize the Social Security Disability Insurance System

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Three difficulties at core of SSDI program

1. SSDI defines disability and employability as opposites: Mutually exclusive states

2. SSDI does not help disabled workers to remain employed or self-sufficient; it rewards labor force exit

3. SSDI provides no incentive to employers to accommodate disabled workers
Fraction of Working Age Adults Ages 20 – 64 Receiving SSDI 1975 – 2012: Approaching 5%

The last major SSDI ‘reform’

U.S. Population by Age, 1980 and 2010

Apps and Awards are Strongly Counter-Cyclical, with a Growing Share of Non-Verifiable Disorders

SSDI Apps per 1,000 Insured Highly Responsive to Unemployment Rate

Initial SSDI Awards by Major Cause of Disability, 1975 - 2010

Figure 3: SSDI Applications per 1000 Insured Workers and Unemployment Rate

For many years, the mental impairment category was the largest single category of State agency disability awards. By 2010, however, musculoskeletal impairments began to exceed mental impairments as the basis for award. Other major causes are cancer and impairment of the circulatory system.

The percentage of cases awarded on the basis of a circulatory impairment, however, has declined substantially over the years.

One contributing factor to the growth in mental impairment cases is the special review carried out to identify and evaluate 130,000 Supplemental Security Income (SSI) beneficiaries who were potentially eligible for Social Security disabled worker benefits because of earnings while receiving SSI. Many of these claims had a mental disorder diagnosis.

This review was substantially concluded by March 2011.
Employment to Population Rate of Males with Work-Limiting Disabilities Falling for Since 1990s

Employment Rates Males Ages 40 – 55 with Self-Reported Disabilities
What a Modern Disability System Should Do

1. **Support ongoing employment**
   - Front-load assistance, back-load screening

2. **Give incentives to employers**
   - Accommodate workers with disabilities

3. **Give incentive to workers**
   - Remain employed if feasible
A New Direction for U.S. Disability Insurance: Supporting Work

1. Support workers before they lose jobs
   - Benefits kick in within 90 days of disability onset
     a) Vocational rehabilitation
     b) Workplace accommodations (as required by ADA)
     c) Partial income replacement while work-limited
   - Up to 24 months of benefits—before applying for SSDI

2. Cause employers to recognize costs of disability
   - Private Disability Insurance carried by employers (PDI)
   - Support workers with disabilities to keep working—Reasonable Accommodations required by ADA, paid by PDI
   - Employers keep policy costs low by preventing work limitations from becoming career-ending disabilities
How Can this be Accomplished?

- Harness existing capacity: Using private sector
  - 1/3rd of U.S. workers already covered by PDI policies

- Modeled on existing U.S. institutions
  - Unemployment Insurance (UI): All employers, *experience rated*
  - Workers Compensation (WC): All employers, *experience rated*
  - Temporary Disability Insurance (TDI): Six U.S. states mandate

- Successful precedents
  a. Netherlands implemented similar reforms in 2000s: Dramatically slowed inflows onto public disability system
  b. U.S. Workers Compensation system—*No real cost increase in last two decades, even as SSDI claims have grown rapidly.*
Incentives to Employers

• U.S. employers have no ‘skin in the game’
  • Face *zero cost* when worker makes SSDI claim → No incentive to reduce utilization
  • Only sensible *if* employers have no influence on claims—unrealistic!

• Experience rating under PDI → Employer incentives
  • Employers will therefore recognize the cost of disability

• But no need to penalize employers for bad luck
  • No more than 24 months of partial wage replacement
  • Health care *not* covered via PDI
  • ‘Compassionate Allowance’ SSDI cases: No employer cost
Oh No! Another Expensive Employer Mandate?

• Modest cost
  • Less than $400 per worker-year, even in ‘risky’ industries
  • Only ~5% - 7% of cost of Health Insurance

• Employers face limited and temporary exposure
  • PDI would *not* pay health benefits
  • Severe, career-ending disabilities go *immediately* onto SSDI
  • Temporary wage replacement: 60% of salary, ≤ $2,500 month

• Slowing system-wide costs will reduce employer burden

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<tr>
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<th>1989</th>
<th>2013</th>
<th>Increase (%)</th>
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<tbody>
<tr>
<td>DI Payroll Tax (still 30% underfunded!)</td>
<td>1.1 %</td>
<td>1.8 %</td>
<td>70 %</td>
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<tr>
<td>SSDI Payments</td>
<td>$41 bil</td>
<td>$132 bil</td>
<td>222 %</td>
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<tr>
<td>SSDI Share of Soc Security</td>
<td>10 %</td>
<td>19 %</td>
<td>80 %</td>
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Despite Uncertainties, Key Virtues

1. **Supports work**
   - A universally acknowledged ‘good’

2. **Builds on existing capacity**
   - PDI is widely subscribed, commercially successful

3. **Preserves component of SSDI that work well**
   - Long term support to those unlikely to work soon

4. **May reduce inflows into long-term SSDI system**
   - Will slow SSDI growth by reducing claims

5. **Consistent with our national values**
   - “The Nation's proper goals regarding individuals with disabilities are to assure equality of opportunity, full participation, independent living, and economic self-sufficiency...” (ADA 1990)
Who Would Not Benefit from Supporting Work?

1. Applicants lacking a meritorious claim
   - SSDI serves as both a non-employability and disability program
   - PDI only helps those with work-limiting impairments

2. Workers who are non-employable but not disabled
   - PDI does not assist those with low skills who cannot find work
   - Adds 21 month wait period until SSDI application
   - No impairment → No PDI benefits in the interim

**SSDI not intended to serve non-employable, non-disabled**

- Other policies needed
- EITC for older workers w/o dependents?
Disability Receipt in U.S. and Netherlands, 1970 – 2009

Introduction

Disability policy reform is possible, and draw lessons from the Dutch experience for fundamental reform of the U.S. SSDI program.

Disability Caseloads

Figure 5-1 compares caseload growth in SSDI and SSI for the United States with caseload growth in the Netherlands. The numbers for the United States and the Netherlands are shown per thousand workers aged fifteen to sixty-four over time.


Note: The U.S. data cover all workers ages fifteen to sixty-four. The Dutch data are for workers ages fifteen to sixty-four, adjusted for hours differences between part- and full-time workers. Separate analysis not shown here shows that these results are not dependent on the definitional differences.

Source: Burkhauser and Daly 2011
“Never let a good crisis go to waste.”

– Winston S. Churchill