Saving Social Security Disability Insurance

Reforms within the Context of Holistic Social Security Reform

Jason J. Fichtner and Jason S. Seligman

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Abstract

Many Social Security reform proposals have emphasized the role of savings over insurance, focusing on retirement. In contrast, disability in prime working age is harder to save for and thus is arguably better considered an insurable event. However, unlike determination processes for many other catastrophes, often disability determination appears inherently relative and somewhat subjective. For these reasons, most social insurance reform proposals have advocated treating reform of disability insurance separately, subsequent to any reform of the retirement system. This paper focuses on disability insurance but makes the case for considering reforms in tandem—that is, (1) developing disability program reforms that accommodate plausible retirement program reforms while properly aligning incentives to support work and savings and (2) providing a financially secure, vital safety net for disabled Americans.

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Author Affiliation and Contact Information

Jason J. Fichtner
Senior Research Fellow
Mercatus Center at George Mason University
jfichtner@mercatus.gmu.edu

Jason S. Seligman
Assistant Professor
John Glenn School of Public Affairs
Ohio State University
seligman.10@osu.edu

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The Landscape for Reform of Social Security and Disability Insurance

In the United States, Social Security reform proposals often have emphasized the role of savings over insurance and, more popularly, focused on retirement instead of disability. Disability in prime working age is harder to save for and so is arguably better considered an insurable event. Although saving for disability is difficult—especially at earlier stages in a career lifecycle—insuring against it presents challenges as well. Chief among these challenges is the fact that, in the majority of cases, the determination of *disability* is not obvious, and disability is not a binary state. Thus, determination appears inherently relative and somewhat subjective.

For these reasons, most pension reform proposals have advocated treating reform of disability insurance separately, subsequent to any pension reform. In other words, reforms to the retirement component of social insurance often have been proposed without consideration of needed reforms to the disability component of social insurance. We argue that reforms to both components should be considered in tandem.

The US social insurance program is primarily funded with matching worker and employer payroll tax contributions, which are divided into legally separate trust funds for retirement and disability. Possible reforms to help meet goals regarding the adequacy of benefits and the solvency of public disability and retirement programs include adjusting the allocation of withholdings between the retirement and disability trust funds, allowing interfund borrowing, and adjusting benefits. This paper also discusses other reforms that would fundamentally change the structure and the incentives of the program. Some of the ideas presented are based on earlier writings by the authors.[1]

The Great Recession, like other recessions since 1965, dramatically increased the number of disability applications and awards. For many people, the US disability program now serves as an early retirement program, which has resulted in a commensurate increase in public financial burdens.[2] Against this backdrop of increasing structural and cyclical growth, the Disability Insurance (DI) trust fund is stressed and the Social Security trustees now estimate that it will be exhausted in 2016,[3] less than one year from the publication of this paper. Consequently, the program actually needs to be reformed *before* the retirement program.

The retirement program, the Old-Age and Survivors Insurance (OASI), has its own separate trust fund, which is projected to become insolvent in 2035. On a combined basis, the two trust funds have a projected insolvency date of 2033. Should DI be considered for reform first, anticipating the magnitude and type of potential spillover effect and any subsequent program reforms to Social Security's retirement program will be important. Alternatively, Congress could pass legislation to direct more money to the disability program and less to the retirement program trust fund as a stopgap measure to extend the solvency of the DI trust fund.

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[1] Fichtner and Seligman (2014) consider how a hybrid private–public Disability Insurance (DI) system might work—along with optimal time paths for reforms—by analyzing German reforms and public reactions over time as an allegory of the US case. In comparison, this piece (1) focuses more narrowly on the United States, (2) employs more recent data, and (3) further develops work by the authors on how DI and OASI (Old-Age and Survivors Insurance) currently contend with involuntary retirement as a result of both health and economic shocks—looking at how Social Security Administration program use has evolved during the Great Recession.

[2] Whereas the average age of disabled-worker beneficiaries has increased, from age 51.0 in 2002 (US Social Security Administration 2003) to age 53.2 in 2012, retirement ages have increased since the turn of the century as well (US Social Security Administration 2013). Providing important information for both structural and cyclical shocks' impacts on disability finance, Benítez-Silva, Disney, and Jiménez-Martín (2010, 1) find that "for a range of countries and data sets, levels of claims for disability benefits are not simply related to changes in the incidence of health disability in the population and are strongly influenced by prevailing economic conditions."

[3] See Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, DC: US Government Printing Office, 2014), http://www.ssa.gov/OACT/TR/2014/index.html.

Three possible stopgap measures could yield similar results: (1) merging the two trust funds, (2) reallocating payroll withholding portions from the OASI to the DI trust fund, and (3) having the DI trust fund borrow from the OASI trust fund to make DI payments in full. Each of those measures requires Congress to pass legislation.

If payroll tax receipts are reallocated from the OASI trust fund to the DI trust fund, the current split of 85:15 could approach or exceed 82:18.[4]

If the DI trust fund borrows from the OASI trust fund, the rate of interest would have to be determined. Of the many possible interest rate selections, the easiest and most straightforward would be to have the DI trust fund pay the same interest rate that any borrowed funds would have received had the money remained in the OASI trust fund. That rate is already determined by law.[5]

In any of those cases, with a loan on the books, the future adjusted DI withholding rate would have to be sufficient to both pay for current benefits and repay the loan. In other words, the eventual ratio of DI to OASI withholding rates would further nudge upward as a result of a temporary borrowing strategy, or the DI program would need sufficient reforms to both restore solvency and repay any loan to the OASI trust fund.

The OASI and DI trust funds are legally separate because they are designed to serve different purposes and different populations.[6] However, historically the financial assets of one trust fund have intermittently been used to financially shore up the other, whether through a

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[4] The current total payroll withholding rate is 12.4 percent, to a maximum of $117,000 (2014), of which 1.8 percent of current payroll is allocated for DI; the rest, 10.6 percent, is allocated to the OASI. A potential reallocation of the payroll tax could be approximately 10.2 percent for OASI and 2.2 percent for DI. See "Social Security & Medicare Tax Rates," Social Security Administration, accessed March 3, 2015, http://www.ssa.gov/oact/progdata/taxRates.html.
[5] See "Interest Rates," Social Security Administration, accessed February 16, 2015, http://www.ssa.gov/OACT/ProgData/intRates.html; "Interest Rate Formula for Special Issues," Social Security Administration, accessed February 16, 2015, http://www.ssa.gov/OACT/ProgData/intrateformula.html.
[6] See http://www.ssa.gov/OACT/ProgData/fundFAQ.html#a0=0.

reallocation or through interfund borrowing.[7] Even so, sharing resources between trust funds is not part of current law and has to be proactively legislated each time, which calls into question the continued utility of maintaining legally separate trust funds. Merging the OASI and DI trust funds and their obligations would create the least amount of unnecessary fiscal accounting and associated stress. Furthermore, merging the two trust funds would acknowledge that some interaction effects exist between the two programs. For example, a reform to the retirement system to increase the retirement age—without changes to the earliest eligible age for retirement benefits—would make disability benefits more financially advantageous to those younger than full retirement age and would put additional financial stress on the disability program.[8]

Merging the two trust funds would have its drawbacks, however. The programs were designed for separate insurance purposes: one insures in case of disability, whereas the other insures against old age and for surviving a spouse. If the two trust funds were combined, any financial or operational problems associated with the individual programs may receive less attention, and policy attention could be diverted from future needed reforms.

However, none of the options discussed would alleviate the fiscal stress placed on the US budget by short- and long-term unfunded obligations via the Social Security Program. Any one of the three options (merging the funds, allowing for a payroll tax reallocation, or interfund borrowing)—without meaningful structural reforms—only delays the day of financial reckoning.

Further, any stopgap resolution of the pending 2016 DI shortfall does nothing to solve the underlying disincentives inherent in both the disability program and the retirement program that

[7] Geoffrey Kollmann, "Social Security: Summary of Major Changes in the Cash Benefits Program," CRS Legislative Histories 2 (Washington, DC: US Social Security Administration, 2000), http://www.ssa.gov/history/reports/crsleghist2.html.

[8] See, for example, Pat Vinkenes, Alice Wade, Mark Sarney, and Tim Kelley, "Considerations for Potential Proposals to Change the Earliest Eligibility Age for Retirement" (Policy Brief No. 2007-01, Social Security Administration, Washington, DC, 2007), http://www.ssa.gov/policy/docs/policybriefs/pb2007-01.html.

discourage work, saving, and investment. In other settings, when reforms have been successful at restoring actuarial solvency and fiscal balance, reforms have been integrated. (A key example is Germany, which engaged in a decade of incremental holistic reforms, as detailed in Fichtner and Seligman [2014].) For those reasons, the authors of this paper argue that meaningful reforms to the Social Security system are necessary now, and temporary funding measures that only delay the program's collapse should be avoided.

Previous proposed Social Security reforms generally have focused on the retirement (OASI) program and paid less attention to the disability insurance (DI) program; consider the Greenspan Commission reforms (Greenspan Commission 1983), the 2001 Bush Administration proposal (Moynihan and Parsons 2001), and the Bipartisan Policy Commission's proposal (Domenici, Rivlin, and Debt Reduction Task Force 2010). In all three cases, retirement benefits were reduced whereas disability benefits were not, regardless of age or degree of disability.[9] One major exception was the Reagan Administration's effort to tighten eligibility rules for the DI program. However, that effort led to a significant number of people losing their disability benefits. In 1984, Congress passed, and President Reagan signed, the Social Security Disability Benefits Reform Act, which was intended to provide a more uniform process for disability determination.

Failure to consider DI as part of larger retirement reforms is a mistake. The longer pension reforms are delayed, the more likely any reform will entail both tax increases and benefit reductions. Any reductions in retirement benefits without tandem changes to the DI program will tend to make the disability program relatively more attractive—in particular because of the lack of temporary and partial-disability awards under the current US system (a lack of partial awards

[9] In the Domenici-Rivlin proposal, disability benefits actually can be higher before retirement age than after.

and of explicitly temporary awards makes any DI award more valuable to the recipient). Although DI payments may be terminated as a result of either a return to the labor force or a disability reevaluation initiated by the Social Security Administration (SSA), in practice those are relatively rare events.[10]

Overview of the Interrelation of the Social Security, Retirement, and Disability Systems

The US social insurance system includes components for retirement, disability, and health insurance. Each component is segregated into general and more chronic welfare-support functions. The welfare functions—Supplemental Security Income (SSI) and Medicaid—do not have trust funds. The primary focus of this paper is on disability, in the context of system reforms. Following is a description of the disability program's development.

The Social Security Disability Insurance program was created in 1956 to insure against loss of income should a worker become disabled. The program has been expanded several times. The most meaningful expansion came in 1965 with the broad expansion of cash and health insurance benefits. Those individuals who apply for DI coverage may also apply for SSI, which pays benefits to disabled adults and children who meet SSI's strict income and asset test. Persons older than age 65 without disabilities but who meet the income and asset test may also be eligible for SSI benefit payments.[11] As noted earlier, the SSI program is funded out of general revenues, not payroll taxes or trust fund assets. DI applications currently are complements to SSI applications in a significant percentage of cases. Thus, even if the DI program were not fiscally

[10] In December 2012, a total of 10,088,739 people received Social Security disability benefits. In 2012, fully 104,902 beneficiaries (or approximately 1 percent) had their benefits terminated for not continuing to meet the plan's requirements, one of which was earning the substantial gainful activity amount or less. See http://www.ssa.gov/policy/docs/statcomps/di_asr/2012/sect03f.html#table50.

[11] For more information on the SSDI program and the Supplemental Security Income program, please see http://www.ssa.gov/pgm/disability.htm and http://www.ssa.gov/pgm/ssi.htm, both accessed June 14, 2014.

challenged in the short term, increasing dependence on DI by the US worker population would burden the United States generally.

DI recipients traditionally also qualify for a third public program, which grants them health insurance. Medicare is available to the disabled two years after the determination date of their disability. The program requires premiums for some important benefits, but historically those premiums have covered less than the full actuarial cost of insurance for an elderly population, the remainder being subsidized by the US federal government.[12] Those individuals who are eligible for SSI are also eligible for Medicaid, which requires no premiums and is fully financed jointly through the US and the 50 states' budgets. Unlike Medicare, Medicaid does not require a two-year waiting period, and this public insurance program often retroactively covers urgent care. Fichtner (2014) explains many of the recent dynamics for this program, including the effect of the Patient Protection and Affordable Care Act of 2009 (ACA).

All this integration, which is the result of careful attention by the SSA and Congress, is of tremendous benefit to families burdened by permanent and severe work disability. However, one set of laws that is not integrated in the system is those under the Americans with Disabilities Act of 1990 (ADA). That omission is likely because the ADA is regulatory in nature; being employer administered, it is not programmatically linked to the SSA. That unfortunate segregation creates discrete gaps between the administration of accommodation on the part of the employer and assistance through Social Security. Employers and individuals each lose because of the lack of fuller labor markets. The tax base is burdened with greater expenditures and lower revenues, which increase rates on a narrower base, with all the resulting inefficiencies.

[12] For more information, see C. Eugene Steuerle and Caleb Quakenbush, "Social Security and Medicare Taxes and Benefits over a Lifetime" (Urban Institute, Washington, DC), http://www.urban.org/UploadedPDF/412945-Social-Security-and-Medicare-Taxes-and-Benefits-over-a-Lifetime.pdf.

Thus, for all the reasons just described, reforms for DI have implications for the OASI and Medicare trust funds, for the general fund via SSI and Medicaid, and, most importantly, for individuals' welfare. In short, DI reforms are broadly of value for the general US fiscal picture in the short term and for the United States over the long term.

Social Security Disability Insurance, as designed, provides cash benefits for individuals who cannot work as a result of a medical condition that is expected to last 12 months or longer or result in death. Legal definitions of what constitutes "disability" vary, and, as noted earlier, the program does not currently allow for temporary or partial-disability payments. An applicant is determined to be either fully disabled or not disabled. The following are examples of people who fail to be considered "disabled": (1) a person suffering from back pain who is able to work only part time, (2) a person who cannot work even part time but who is expected to recover in 6 to 10 months, and (3) a person temporarily disabled because of pregnancy.

By contrast, the private market and the US Department of Veterans Affairs (VA) are two other DI outlets. Private insurers generally offer both short- and long-term DI, which can usually be purchased separately or in tandem. The VA offers partial-disability awards to military veterans, thereby acknowledging that some disabilities completely prohibit the ability to work, whereas others—to a lesser degree—limit opportunities. However, neither the private market nor the VA covers anywhere near the same percentage of the US population as does Social Security.

The application process for Social Security Disability Insurance can be confusing and lengthy. Applicants for DI can apply either at a Social Security field office (in person or over the phone) or online. Field office personnel first make sure the applicant is covered by the program. To be covered, an applicant must meet certain participation-related requirements, including having worked long enough in DI-covered employment and having paid payroll taxes into the

Social Security system. Next, applicants are screened for earnings and for evidence of a health impairment that results in disability. If an applicant has an illness that is included on a list of medical impairments, the applicant is awarded benefits.[13] If not, then the case worker evaluating the application examines whether or not the applicant's claimed impairment prevents him or her from working. If so, benefits are awarded.

Applicants who are rejected may ask the SSA to reconsider the decision. Almost 90 percent of rejected applicants appealed at the reconsideration stage in 2005, but only 13 percent had the decision overturned and were awarded benefits at that stage of the application process (Autor and Duggan 2010, as reported in Lindner and Burdick 2013). Those applicants who are still rejected have the option of appealing further to an administrative law judge (ALJ), appeal council, and federal court. The majority of denials that reach the ALJ level are reversed, and applicants are then awarded benefits.[14] Given the high variation of ALJ decisions and the need for a transparent and equitable decision process, the SSA makes available to the public data on each judge's overall decision for awards and denials.[15] The waiting time to have a case heard by an ALJ varies by office but can be well over a year.[16]The basic schematic design of the current system is shown in figure 1.

A striking discontinuity exists between (a) staying in the workforce and seeking a work accommodation under the 1990 ADA and (b) exiting the workforce to apply to the SSA disability program. Having presented some basics regarding the program and its growth over time, we now consider DI in the context of the funding of the Social Security system. The overall financing of the system is depicted in figure 2.

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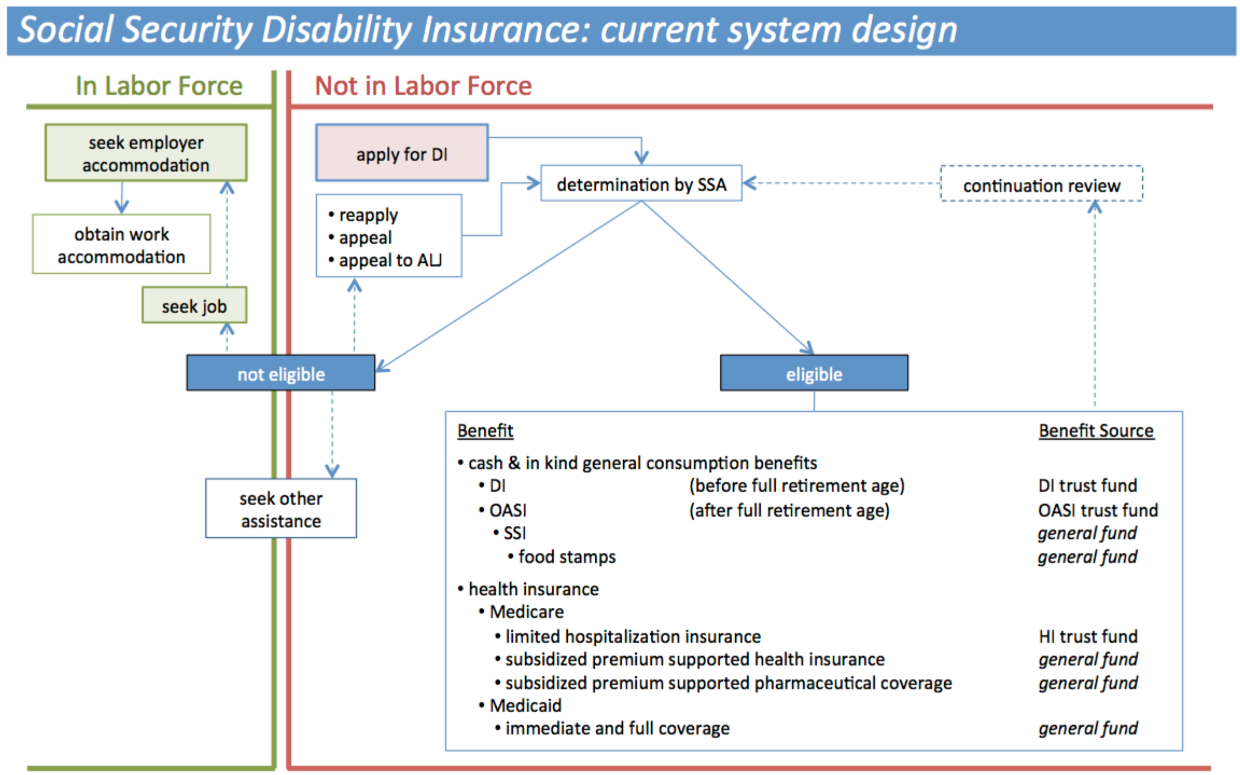
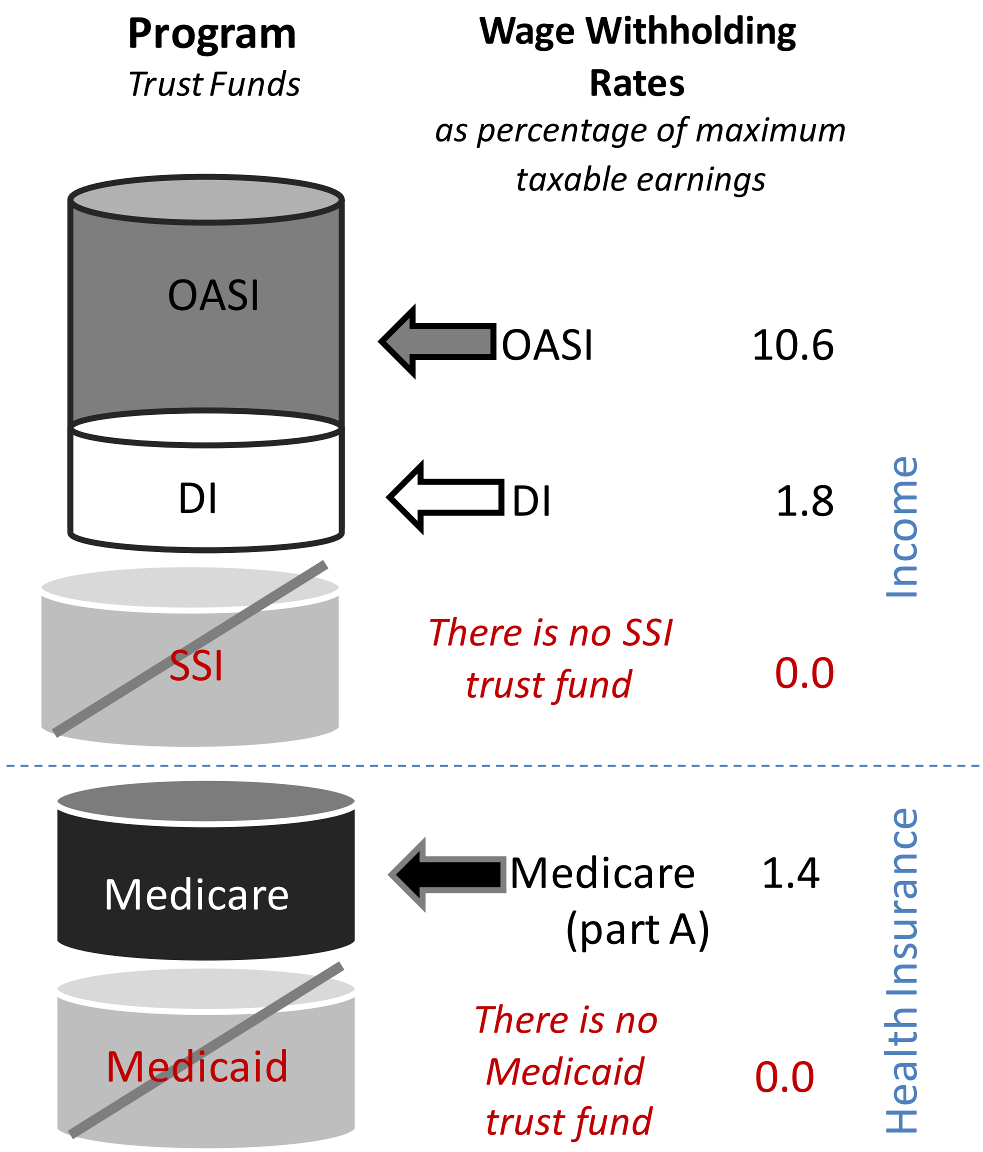
[13] See http://www.ssa.gov/disability/professionals/bluebook/AdultListings.htm.
[14] See http://oig.ssa.gov/sites/default/files/audit/full/pdf/A-07-12-21234.pdf.
[15] See http://www.ssa.gov/appeals/DataSets/03_ALJ_Disposition_Data.html.
[16] See http://www.ssa.gov/appeals/DataSets/01_NetStat_Report.html.

Figure 1. Current Integrated System Design



Note: ALJ = administrative law judge; DI = Disability Insurance; HI = Medicare Part A Hospital Insurance; OASI = Old-Age and Survivors Insurance; SSI = Supplemental Security Insurance.

Figure 2. Basic Financing of the US Social Security Retirement, Disability, and Health Insurance Systems



Note: DI = Disability Insurance; OASI = Old-Age and Survivors Insurance; SSI = Supplemental Security Insurance. The figure details funding mechanism by entity (columns) and program type (rows). The first column describes stores of assets (trust funds). Need-based programs (Medicaid and SSI) do not have trust funds but instead rely exclusively on tax revenues at the federal and state levels for funding. Medicare further relies on insurance premiums, deductibles, and copayments from participants.

The top left corner of the diagram illustrates that the retirement and disability aspects of the Social Security system are managed via two separate trust funds, which are depicted as separate parts of a single cylinder. Although those programs are the primary focus of this paper, considering the whole diagram is useful; as stated previously, any systematic reforms to the Social Security retirement or disability program will affect not only wage withholdings and benefits but also possibly SSI, Medicare, and Medicaid outlays, with impacts for federal, state, and individual budgets. We will describe a few particular interactions regarding the welfare and health insurance programs when we discuss potential reforms later in this paper.

Focusing just on the DI program, outlays have doubled over the past decade and are projected to continue to rise. In 2002, the outlays totaled nearly $68 billion (0.61 percent of gross domestic product [GDP]), whereas revenues were more than $87 billion, resulting in a surplus of $19 billion.[17] In 2012, outlays for the disability program totaled $140 billion (0.86 percent of GDP), whereas total revenues were only $109 billion—leaving an annual cash-flow deficit of approximately $31 billion (paid through a reduction in trust fund assets). As mentioned previously, the current estimate is that the DI Trust Fund will become insolvent in 2016.[18]

Although the overall retirement and disability system (represented by the full cylinder in the top left corner of the diagram) has enough assets to avoid insolvency and pay fully scheduled benefits until 2033, the DI program's more immediate financial concerns are critical. One reason is that *the two trust funds are legally separate: benefits for the disability program cannot be paid out of the retirement trust fund or out of payroll taxes dedicated to the retirement program.* Only a change in the law can alter the ratio of payroll taxes going to both the retirement and disability trust funds.

[17] See http://www.ssa.gov/OACT/STATS/table4a2.html.
[18] See http://www.ssa.gov/OACT/TR/2014/index.html.

The disability program's more immediate financial troubles offer a potential window of opportunity before 2016 for Congress and the president to reform the DI program. Those reforms can be designed to not only provide long-term solvency but also reform the fundamental structure of the program to provide support for individuals who are temporarily or partially disabled while they prepare to return to work. Improving the frequency of returns to work not only offers potential benefits to the current retirement program but also makes some proposed retirement program reforms easier to administer. Enabling more people to return to the workforce especially benefits reforms that include individually directed retirement savings accounts; balances in those program designs are not generated by insurance formulas but instead rely on contributions and compounding returns. Return to work facilitates accumulations in such accounts.

Current Program Dynamics

Three important issues when considering disability in the context of pension reforms are first, the important role that retirement and disability program benefits play in the financial security of millions of Americans; second, the current financial position of both disability and retirement systems as they relate to the US fiscal position; and third, cyclical components to applications and awards across both programs.

The Great Recession, along with the lingering high level of unemployment since that time, has increased disability applications and rates of awards. In addition, elderly workers who have exited the workforce involuntarily—ahead of their planned retirement dates—as a result of health or economic dislocations during and since the Great Recession have relied on the OASI program for income.[19] Reforms should account for those dynamics in the same way that the

[19] For more on involuntary retirement and its impact on financial and holistic well-being, see Seligman (2014).

initial US Social Security program design was a response to the plight of elderly poverty in the midst of the Great Depression.

Importance of the Social Security Program in Retirement and as a Safety Net

Researchers have long recognized the role Social Security benefits play in securing a dignified and secure retirement.[20] DI currently covers about 90 percent of the workers covered by Social Security.[21]

Social Security retirement benefits provide income security for millions of Americans. Approximately 65 percent of all beneficiaries rely on Social Security for 50 percent or more of their income, and 36 percent rely on Social Security for 90 percent or more of their income (US Social Security Administration 2012). According to the SSA, approximately one out of every four people age 20 or older will become disabled before age 67—the full retirement age.[22] According to DeCesaro and Hemmeter (2008), the DI program also provides most of the income for DI beneficiaries, with 71 percent of beneficiaries relying on DI for 50 percent or more of their income and nearly one-half relying on DI for 90 percent or more of their income.[23] The Social Security retirement program accounts for 74 percent of benefits paid, whereas the disability program accounts for 16 percent. That the program pays a large portion of benefits is of note, but only as a static measure. Burkhauser and Daly (2012) note that in 1970, Social Security Disability Insurance paid a less onerous 10 percent of the dollars expended by the

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[20] For a summary of research work about this topic, see Richard Burkhauser, Alan Gustman, John Laitner, Olivia S. Mitchell, and Amanda Sonnega, "Social Security Research at the Michigan Retirement Research Center," *Social Security Bulletin* 69, no. 4 (2009).

[20] As the US Social Security Administration reports, "Although men are more likely than women to be insured, the gender gap is shrinking. The proportion of men who are insured has remained essentially stable, with 90% fully insured and 79% insured for disability. By contrast, the proportion of women who are insured has increased dramatically—from 63% to 84% fully insured and from 41% to 73% insured for disability" (2013, 12).

[22] See http://www.ssa.gov/pressoffice/basicfact.htm.

[23] See table 2 in that report.

combined retirement and disability programs. We agree that the growth rate is disproportional and of most concern.

The average benefit for a person on DI is not compellingly large. Measured on a monthly basis, that amount was $1,129 in June 2013, or just over $13,500 a year. That is approximately $2,000 more per year than the US federal poverty level and approximately $2,000 less than full-time wages at the current US federal minimum wage of $7.25 an hour.

Data from the Health and Retirement Study (HRS),[24] a biennial survey of Americans older than age 50, shows that DI and SSI supports in the United States generally appear well targeted. Table 1 offers categorical differences in pre- and post-retirement income.

Groups with replacement rates less than 60 percent (from all income sources) are set in boldface in the table—several groups have average incomes near or below the poverty line. Among those in the HRS between 1992 and 2010, the population retiring early and receiving Social Security at the time of retirement generally reported income replacement rates of 70–71 percent. Those receiving disability or other supplemental help have lower average replacement rates of 57 percent. The impacts for the latter group are larger than they would be otherwise because pre-retirement incomes for that group are lower to begin with—on average, 38 percent lower. Thus, average retirement income for the more vulnerable group ($14,458) is roughly one-half that of traditional retirees ($28,609) and quite near the official poverty line. Differences in outcomes are larger for individuals who retire without Social Security benefits.

[24] See http://hrsonline.isr.umich.edu/.

Table 1. Pre- and Post-Retirement Income By Type of Retirement and Benefit Receipt, 1992–2010

Type of benefits received	Overall	Voluntary retirement		Involuntary retirement	
		For health reasons	For other reasons	For health reasons	For other reasons
Overall					
Income before retirement	$39,711	$33,799	$44,445	$26,638	$37,448
Income after retirement	$27,715	$19,424	$32,613	$15,286	$25,202
Replacement rate	70%	**57%**	73%	**57%**	67%
1. Supplemental Security Insurance/Disability Insurance benefits					
Income before retirement	$25,252	$23,583	$24,926	$24,934	$28,862
Income after retirement	$14,375	$10,213	$16,931	$14,458	$14,390
Replacement rate	**57%**	**43%**	68%	**58%**	**50%**
2. Old-Age and Survivors Insurance benefits					
Income before retirement	$40,338	$34,853	$43,518	$27,796	$36,747
Income after retirement	$28,609	$21,085	$32,106	$16,234	$24,442
Replacement rate	71%	60%	74%	**58%**	67%
3. No Social Security benefits					
Income before retirement	$49,480	$38,425	$55,703	$30,007	$45,980
Income after retirement	$34,407	$19,200	$39,711	$14,526	$35,234
Replacement rate	70%	**50%**	71%	**48%**	77%
Sample sizes (*N*):	5,379	364	3,257	859	899

Source: The data in this table were generated as part of a larger research study on involuntary retirees. See Jason S. Seligman (2014), "Involuntary Retirement, U.S. Social Security Program Participation and the Great Recession," *Public Finance and Management* 14 (3): 329–56.

Note: Income is measured in constant 2008 dollars over the 1992–2010 period. Boldface indicates replacement rates of less than 60 percent.

The Current Financial Position of the Social Security Disability and Retirement Programs

The 1983 reforms placed a series of backstop fiscal measures in place for the disability and retirement programs. Once a trust fund is exhausted, benefits are automatically adjusted downward to be within the level of revenues received from payroll withholding.

That law is designed to protect the general US budget from long-term fiscal instability as a result of any trust fund failure, but it is of limited value—and not only because of political pressures geared toward preserving benefits. A more direct link to the general budget of the United States exists through the SSI program and bears consideration as well. If politicians fail to reform the retirement and disability systems' ability to preserve worker benefits around the average of the vulnerable group ($14,458), fiscal impacts will spill over to SSI and, thus, the general US budget because that income level is near the poverty line at which SSI payments are mandated.

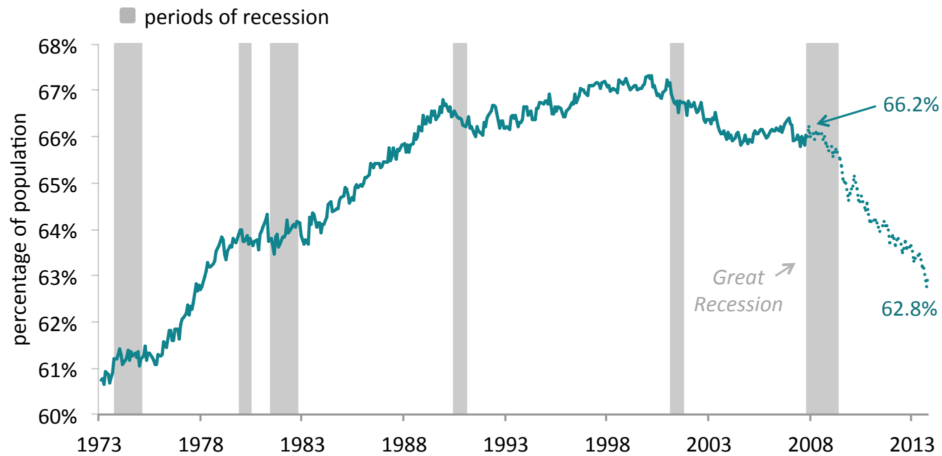
Cyclical and Structural Factors: Impacts of the Great Recession

The financial crisis that began in 2007 resulted in a large unanticipated loss of wealth for millions of people. The US stock market, as measured by the broad Standard & Poor's (S&P) 500 index, lost more than half of its value (falling 56.7 percent) from a peak on October 10, 2007, to a trough on March 9, 2009.[25] Housing prices plummeted, and unemployment rose quickly to double-digit rates. General confidence in the financial system was greatly weakened. Even though the general stock market has recovered, housing prices are still in the process of recovering. Unemployment persisted at elevated rates well into the recovery: unemployment rates for workers ages 55 to 64 averaged 7 percent for the years 2009–2010, compared to 3 percent for the period 2005–2008.[26] Although unemployment has improved, US labor force participation (LFP) has dropped by more than three percentage points, from 66.2 percent to 62.8 percent, as shown in figure 3.

[25] Data are available from Yahoo! Finance. The S&P 500 index value at market close on October 10, 2007, was 1562.47. The index value at market close on March 9, 2009, was 676.53. The National Bureau of Economic Research, the arbiter of the start and end dates of a recession, determined that the recession that began in December 2007 ended in June 2009, roughly coinciding with the peak and trough dates of the S&P 500 index.

[26] Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, July 2011, http://www.bls.gov/cps/cpsaat1.pdf.

Figure 3. US Employment to Population Ratio, 1973–2013



Source: US Bureau of Labor Statistics, http://www.bls.gov/cps/cpsaat1.pdf; National Bureau of Economic Research Business Cycle Dating Committee, http://www.nber.org /cycles/recessions.html.

Note: Data adjusted monthly and seasonally.

Those economic conditions have vastly changed the employment and financial landscape for millions of Americans and appear to have had an impact on the number of people seeking DI payments (Lindner and Burdick 2013). The changes in the stock market, housing market, or labor market clearly do not cause physical disability, but such changes lead to an economic decline and increased unemployment (especially for individuals who might be considered marginally disabled). Such circumstances cause people who find themselves unemployed to have a greater proclivity to characterize themselves as disabled and apply for DI benefits. This process is not unique to the United States; the cyclicality in disability awards is consistent with findings for several countries (Benítez-Silva, Disney, and Jiménez-Martín 2010).

However, the recession's impact on retirement savings has apparently forced some older Americans back into the workforce. LFP for those ages 65 and older has increased from less than 16 percent to 18 percent, reversing a long trend of declining participation among that group.[27]

Further evidence of broad impacts among older Americans is found in the HRS. According to data from the HRS, 74 percent of respondents reported having been affected by the Great Recession, whereas only 26 percent reported not having been affected (Hurd and Rohwedder 2010). Our own calculations, with holistic attitudinal data from the HRS, speak to the depth of negative impacts.

Between 2008 and 2010, the average reported level of satisfaction in the years following retirement, as compared to the years just before, declined for those retiring traditionally—that is, for people who stated that their retirement was a matter of voluntary preference and who receive benefits from the standard Social Security retirement program (OASI). Among individuals who report that they were forced to retire for reasons other than health, relative satisfaction declined by magnitudes roughly 10 times as large, as shown in table 2.

Across the table, moderate negative impacts dominate the changes experienced—almost regardless of group—but they are much more acute among individuals who retired involuntarily as a result of a business closing or layoff (see far-right column). Notably, a possible pattern of positive changes may be seen in the four groups receiving SSI/DI. Those changes may be an aberration, or that group may have become relatively more appreciative of their benefits following the Great Recession.

[27] Although two percentage points might not appear to be much, it stands in stark contrast to the 3.4 percent decrease in overall LFP and represents 13 percent growth over the 2007 base level.

Table 2. Measures of Satisfaction by Type and Timing of Retirement, 2008–2010

Type of benefits received	Traditional retirement		Involuntary retirement	
	For health reasons	For other reasons	For health reasons	For other reasons
Rating of retirement satisfaction[(a)]				
1. SSI/DI benefits	0.37	0.53	−0.26	0.19
2. OASI benefits	0.59	0.75	−0.07	0.22
3. No Social Security benefits	0.59	0.80	−0.22	0.40
Comparison of years after retirement to years before retirement[(b)]				
1. SSI/DI benefits	0.19	0.49	−0.42	0.05
2. OASI benefits	0.42	0.57	−0.20	0.05
3. No Social Security benefits	0.43	0.72	−0.25	0.38
Changes from 1992–2008 sample				
Rating of retirement satisfaction[(a)]				
1. SSI/DI benefits	−0.10	0.03	0.03	−0.23
2. OASI benefits	−0.03	−0.02	−0.01	−0.10
3. No Social Security benefits	−0.12	−0.02	−0.12	0.04
Comparison of years after retirement to years before retirement[(b)]				
1. SSI/DI benefits	−0.13	0.05	0.05	−0.28
2. OASI benefits	−0.07	−0.04	−0.01	−0.10
3. No Social Security benefits	−0.07	−0.02	−0.19	−0.16

(a) Scale is 1 = very satisfying, 0 = moderately satisfying, −1 = not at all satisfying.
(b) Scale is 1 = better, 0 = about same, −1 = not as good.

Source: Authors’ calculations based on Health and Retirement Study data for 1992–2010.

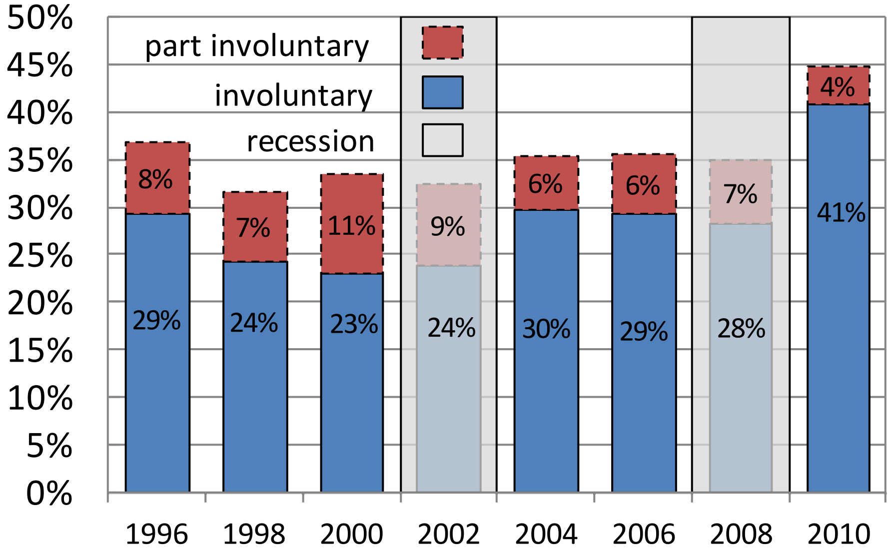
Note: DI = Disability Insurance; OASI = Old-Age and Survivors Insurance; SSI = Supplemental Security Insurance.

Involuntary retirement—whether experienced as a result of health problems or economic dislocation—has been on the rise in the United States; it rose from 23 percent of retirement reports in 2000 to 41 percent in 2010. Additionally, some individuals report being “part forced” into retirement, as seen in figure 4.

Figure 4 documents evidence supporting three points.

- First, involuntary retirement reports increased in the wake of the last two recessions.
- Second, reports remain elevated for some period thereafter.
- Third, impacts following the Great Recession are notably larger in magnitude.

Figure 4. Proportion of Retirees Reporting Involuntary Retirement, 1996–2010



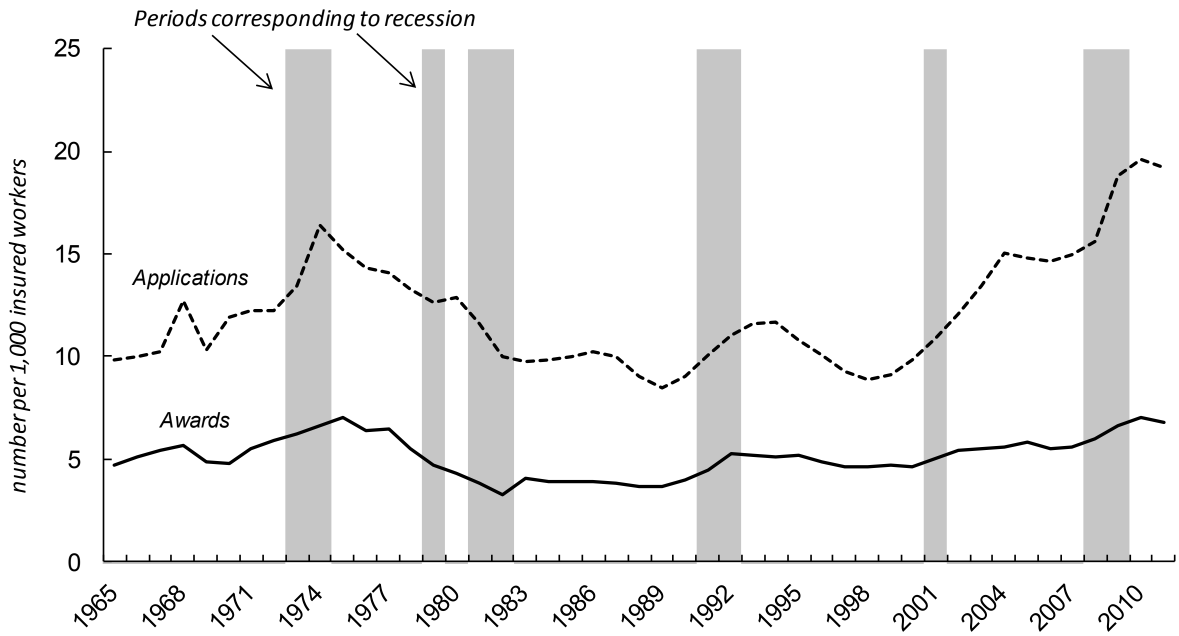
Source: Health and Retirement Study biennial data, National Bureau of Economic Research Business Cycle Dating Committee, http://www.nber.org/cycles/recessions.html.

Note: Voluntary and involuntary reports were based on answers to the following query: "Thinking back to the time you (partly/completely) retired, was that something you wanted to do or something you felt you were forced into?"

The proclivity to apply for disability payments seems reasonably correlated to the involuntary reports data shown in figure 4. DI applications and awards are shown in figure 5.

Figure 5 details that disability applications and awards are also linked with recessions. The Great Recession is again linked with uniquely high application rates, along with increases in awards. Overall, applications per thousand insured workers are 5.1 percentage points higher during recessions, and awards average 2.1 percentage points higher over the 1965–2011 period. Those increases are, respectively, 7.8 and 4.2 times the rates of application and award in nonrecessionary times. Lindner and Burdick (2013) suggest that people with moderate disabilities who can work but might find difficulty gaining employment turn to the DI program during economic downturns, possibly as a means of obtaining unemployment insurance—which is not what the DI program is designed to cover. The next section returns to that topic and provides broader context on those programs' prospects. We then offer some ideas for reform that we believe are harmonious with savings-based reforms of the retirement systems.

Figure 5. Disability Insurance Applications and Awards per 1,000 Insured Workers, 1965–2011



Sources: Social Security Administration, National Bureau of Economic Research Business Cycle Dating Committee, http://www.nber.org/cycles/recessions.html.

Social Security, Hardships, and Associated Prospects for Reform

Recessions are depicted as discrete events, but unemployment evolves more continuously. That is also true for the growth of savings in retirement accounts. The value of those assets, in turn, constitutes the basis for most retirement wealth.[28] Thus, considering the influence of

[28] Seligman and Wenger (2006) estimate the impact of unemployment on defined contribution retirement savings and find that unemployment is coincident with negative shocks to equities prices, which implies that workers may systematically miss investment opportunities. That might seem to be less the case for disability; an upshot of the situation would be that equity investments might do a better job protecting against disability simply because disability risks and financial risks are not naturally coincident. However, in light of figure 5 and recent DI application and award increases—as well as the findings of Benítez-Silva, Disney, and Jiménez-Martín (2010) noted earlier—we take seriously the idea of a persistent, countercyclical, boom-bust cycle in disability awards.

unemployment and financial shocks on the Social Security Disability Insurance system in a less discrete fashion makes sense before turning to evaluating how specific plan reforms might impact human and fiscal outcomes—including the social goal of helping able-bodied individuals return to meaningful work.

Although the proportion of the population receiving Social Security retirement benefits has been steadily increasing over time, the disability program has been growing faster. The annual rate of increase for the number of beneficiaries in the retirement program from 1971 to 2011 was 1.6 percent. However, for disabled workers, the rate of growth was 2.2 percent (US Social Security Administration 2012). Disabled beneficiaries include both adults and children. Between 1980 and 2013, spending on SSI and DI benefits grew from 0.7 percent of GDP to 1.2 percent of GDP (Liebman and Smalligan 2013).

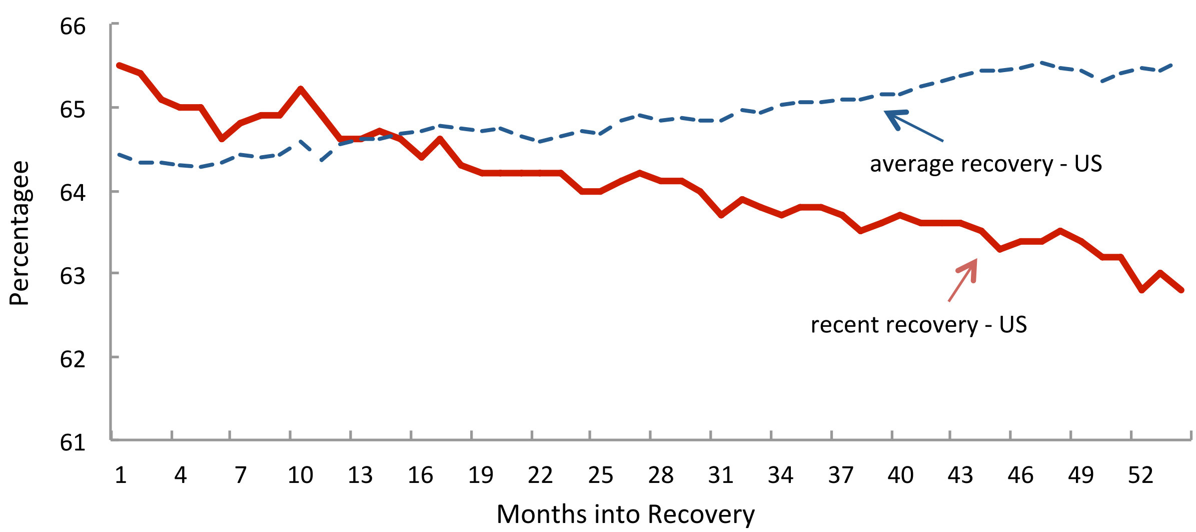
For some time now, research has suggested that the number of applications to the DI program is highly correlated with the unemployment rate (for example, see Rupp and Stapleton 1995).

So far this paper has discussed cyclical disability application; however, structural changes to the US economy must be considered as well. In particular, the United States has experienced diminished LFP rates, as shown in figure 6.

Declining LFP, increases in the Social Security full retirement age, and a decline in private-sector employer pension coverage all factor into reasons one might expect further long-run increases in DI applications. Interestingly, Daly, Lucking, and Schwabish (2013) cite increased female LFP and more women reaching disability-insured status as another structural component leading to one-time increases in DI and SSI claims. Notably, as far as DI goes, increases in female LFP have increased payroll withholding contributions as well (Daly, Lucking, and Schwabish 2013). The challenge of meeting the higher disability awards resulting from persistently lower LFP alone would overwhelm the trust fund over the medium run, according to historic trends. However, evidence shows that DI applicants have become more aggressive in appealing decisions. The experience of one leading disability attorney highlights the evolution of the disability application process and of legal representation among applicants:

> "When we started," [Charles] Binder told me, "I don't think anybody else was advertising." What's more, most people who applied for disability were denied and never had a hearing. Binder, and the lawyers who followed him, changed that. "I've created some of the problems for the government because so many people appeal," Binder says.
>
> When he started in 1979, Binder represented fewer than 50 clients. Last year, his firm represented 30,000 people. Thirty thousand people who were denied disability appealed with the help of Charles Binder's firm. In one year. Last year, Binder and Binder made $68.7 million in fees for disability cases. (Joffe-Walt 2013)

Figure 6. US Labor Force Participation over Economic Recoveries Following Recessions, 1973–2013



Source: Labor force participation statistics from the Bureau of Labor Statistics (1973–2014); recovery statistics from the National Bureau of Economic Research Business Cycle Dating Committee, http://www.nber.org/cycles/recessions.html.

Lindner and Burdick (2013, 2) find that “almost all of the increase in the number of total applications and allowances during recessions is due to an increase in applications that are initially rejected.” Moreover, National Public Radio’s *This American Life* recently documented the growth of DI legal services targeting appeals (Joffe-Walt 2013). Further evidence reveals that the Great Recession is again uniquely challenging for DI finances. The economic downturn and subsequent slow economic recovery have led not only to an increase in DI applications and awards but also to a further imbalance of revenues coming in that provide financial support to the program and benefits paid out.[29]

Further in the way of structural considerations, Coe and Rutledge (2013) find that during the Great Recession, not only did award and application rates increase compared to other recessions but the award-to-application ratio also increased. Generally, that ratio declines during recessions. The authors posit that one reason for the difference may be that the Great Recession changed award standards or enabled applicants to more easily prove that their employment prospects were weak or nonexistent. For example, Coe and Rutledge (2013, 19) partly conclude that “individuals who apply during recessions are more likely to have a recent work history and to have worked full-time than those who apply during booms.” They also suggest that determinations of disability may have been more flexible or lenient:

> With the fact that there have been no substantial programmatic changes to the disability programs, we interpret our findings as evidence of a substantive shift over the last decade in how the disability application decisions and the disability awards have been made, which cannot be explained by observable characteristics of the applicants. (Coe and Rutledge 2013, 20)

The DI program is intended to provide income support to individuals with permanent disabilities who cannot work. However, as discussed previously, some people with marginal

[29] See http://www.ssa.gov/OACT/STATS/table4a2.html.

disabilities who can work might seek DI benefits during tough economic times when jobs are harder to find (the marginal merit of those applicants has tended to reduce award rates in previous recessions). That fact suggests that some people on DI might be able to work if jobs were available. In fact, the SSA has programs in place to help return such people to the workforce. Yet, as Autor and Duggan (2010) explain, efforts to return marginally disabled people to the workforce have been a failure (see figure 7).

That failure is partially the result of moral hazard problems inherent in the program. The program may be failing to insure only those with permanent disabilities, or the program may inhibit LFP among clients with marginal disabilities—that is to say, those who could find work.

One reason people on DI might hesitate to look for work is that successful transition to the workforce eventually detaches them from the health insurance they likely received through the Medicare and Medicaid systems, especially because few low-wage jobs currently offer such benefits. The health care exchanges established under the ACA may help to ease those concerns; however, that result is unclear at the time of this writing. The ACA is being phased in over the next several years and currently faces many implementation challenges.[30]

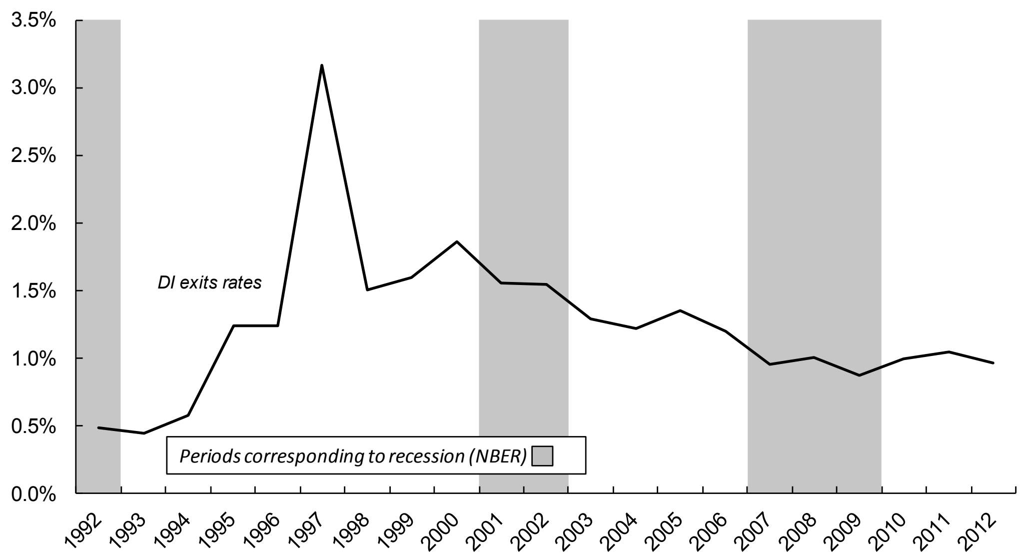
Recent work by Blahous (2014) points out that although the ACA creates new fiscal burdens for the federal government, impacts are dependent on states' decisions about whether to expand Medicaid eligibility as allowed under the ACA. Notably, because other social welfare programs vary on a state-by-state basis, interactions impacting DI uptake may therefore vary as well. Although, generally, health insurance purchased through the exchanges will have real costs for the majority of participants, Medicaid requires no premiums or out-of-pocket expenses, which could create an additional incentive to apply when DI benefits are between 100 percent

[30] See http://www.hhs.gov/healthcare/facts/timeline/index.html.

and 138 percent of the federal poverty level. Whether that incentive is enough to motivate additional DI applications in states engaging in the full expansion of Medicaid under the ACA will have to be researched over the next few years.

As stated previously, the proper role for DI is to be an insurance program targeting individuals with physical and mental disabilities that preclude work. Figure 7 documents exits from DI over the period 1992–2012.

Figure 7. Percentage of Social Security Disability Insurance Recipients Leaving the Program for Not Meeting Medical Criteria, 1992–2012



Source: Social Security Administration, National Bureau of Economic Research Business Cycle Dating Committee, http://www.nber.org/cycles/recessions.html.

Note: This figure describes exits related to health over time. Notably, the Americans with Disabilities Act (1990), which worked to improve accommodation for disabled workers, does not seem to be associated with any long-term trend of increased exits.

A well-functioning program would display relatively smooth exits over time. Spikes, if they occurred, would be the result of sudden improvements in therapy or accommodations that improve job prospects.

The spike in figure 7 occurs during the Clinton administration and is a result of increased emphasis on case review. The ADA improved accommodation requirements and disabled workers' rights, but it is not associated with any meaningful spike or change in long-term exit trends. A similar spike occurred during the Reagan administration.

Recently, a few proposals for reform have emerged that are worth considering. (See, for example, Autor and Duggan 2010; Liebman and Smalligan 2013.) Some of those reforms are less intrusive on retirement program reforms, whereas others should be considered only in tandem with those programs.

Social Security Disability Reforms Considered in Terms of Integration with the Social Security Retirement Program

Next, we turn to some reform proposals with the potential to return the DI program to its original intended purpose—that is, to providing income support for individuals who cannot work because of permanent disability. The following reforms have the potential to help individuals who are marginally or temporarily disabled return to work. These reforms also return the DI program to fiscal sustainability.

As with many other issues that constitute the social insurance reform realm, changes in personal and employer behaviors have contributed to the relative importance of the system. Opportunities to obtain DI coverage are lacking outside the public program. In the United States, short-term DI is available to only 37 percent of the civilian workforce, and just one-third of civilian workers have access to long-term disability coverage through their employers. By comparison, 74 percent have access to health care benefits, 69 percent have access to retirement benefits, and 62 percent have access to life insurance benefits. The relative lack of access does not suggest a lack of interest in DI on the part of US workers. The Bureau of Labor Statistics estimates a take-up rate of 98 percent for short-term and 95 percent for long-term coverage, a much higher take-up rate than for the other worker benefits mentioned (Solis and Hall 2010). Thus, workers offered DI seem to highly value it.

Personal and employer responsibilities must be considered anew in the context of reforms. As Burkhauser and others (2013, 39) state,

> Because employers bear no direct responsibility for funding benefits paid to former employees, employers have no direct financial incentive to accommodate and rehabilitate employees who become impaired. Incentivizing employers to make greater investments in accommodation and rehabilitation by creating a scheme that makes employers internalize some or all of the costs of moving employees onto long-term disability could curb DI growth by more effectively aligning incentives.

Autor and Duggan (2010) propose experience-rating employer contributions to the system. That rating would be based on the history of employees' disability applications. It would partially determine future contributions and require employers to cover up to the first two years of disability through private group DI policies. That course of action would remove a potential moral hazard problem whereby businesses whose employees exhibit higher instances of disability would not be able to shift those workers to a disability program without direct costs. If an employer is required to cover the first two years of worker disability through private market insurance, the employer may have more incentive to either keep partially disabled workers employed or improve working conditions to reduce the overall incidence of disability.

Such program innovations hold promise in as much as they expand the private system and thereby reduce the burden of retirement system reforms to address disability—at least, directly. However, employers' motivation to protect experience-rating markups in the public system and avoid two-year claim payouts within their group policies might well create perverse incentives for business. Businesses may choose to avoid exposure to both public and private premium increases by avoiding hiring employees prone to disability claims—including those who might be returning to the workforce following a disability claim. *Hence, we do not believe these designs as they now stand would create a better DI system.*

Two additional design elements would improve proposals to increase the role of employers in the DI system: (1) symmetric penalties that increase premiums for businesses with implausibly low claim rates, as measured against the overall rates in industry occupation brackets, and (2) insurance premium discounts for hiring and maintaining previously disabled persons returning to the workforce. To adjust premiums using experience ratings appropriately, experiences with disability claims in different industries would have to be measured to assess differences in disability incidence rates (for example, sales jobs versus manufacturing jobs). Differences among employers within each general occupational industry would then also have to be measured. A difficult, but necessary, task would be devising some way to ensure that employers in industries with typically higher levels of disability incidence rates are not avoiding hiring disabled workers just to keep their experience rating artificially low.

Again, the goal of any reform to the public DI system should be to give primary consideration to helping individuals with disabilities who can work return to or remain in the workforce while also providing long-term financial support for those who cannot work. That focus will improve the program's effectiveness as well as its fiscal position. Although more research in this area is necessary, with such innovations in place, broadening the private disability system is more appealing.

The application and evaluation process is another area in which opportunities exist for improvement. Liebman and Smalligan (2013) point out that currently, the financing of the evaluation process is handled in a way that can incentivize disability application reviews to be rushed, thereby detrimentally impacting the program's finances.

Generally, cutting costs in the application and evaluation process allows the SSA to reduce the amount of money it needs from Congressional appropriators, whereas the cost of higher benefits is a burden that is automatically paid out of the dwindling trust fund. Given that denied applicants often appeal decisions—inducing a review, which is covered by the discretionary budget—the net incentive effect of the current evaluation system's financing tends to increase marginal awards that burden the trust fund over the long run. That dynamic can make the program more inclusive at the margin, thus reducing discretionary expenditures up front and increasing long-term trust fund expenses. That result is not without cost to other program beneficiaries: in the wake of trust fund exhaustion, the most eligible claimants will also experience benefit cuts and associated hardship, because of such perverse incentives.

Changing that review system's financing seems to be a fruitful opportunity. Presumably, if the SSA has more dedicated funding to handle the review process and to conduct continuing disability reviews[31] for individuals currently receiving benefits to determine continued eligibility, the number of applications initially awarded may decline, and individuals who receive benefits but whose disability no longer prevents them from working could be removed from the program. However, improving the SSA's funding for disability reviews seems to be an even more valuable opportunity when it is considered in light of the dynamics of the Autor and Duggan proposals.

A system in which private insurance offerings are expanded presents an opportunity for randomization of a measured subset of initial reviews between private and public parties. Such a randomization would serve an audit function and help to manage moral hazard at the entry point.

[31] See http://www.socialsecurity.gov/ssi/text-cdrs-ussi.htm.

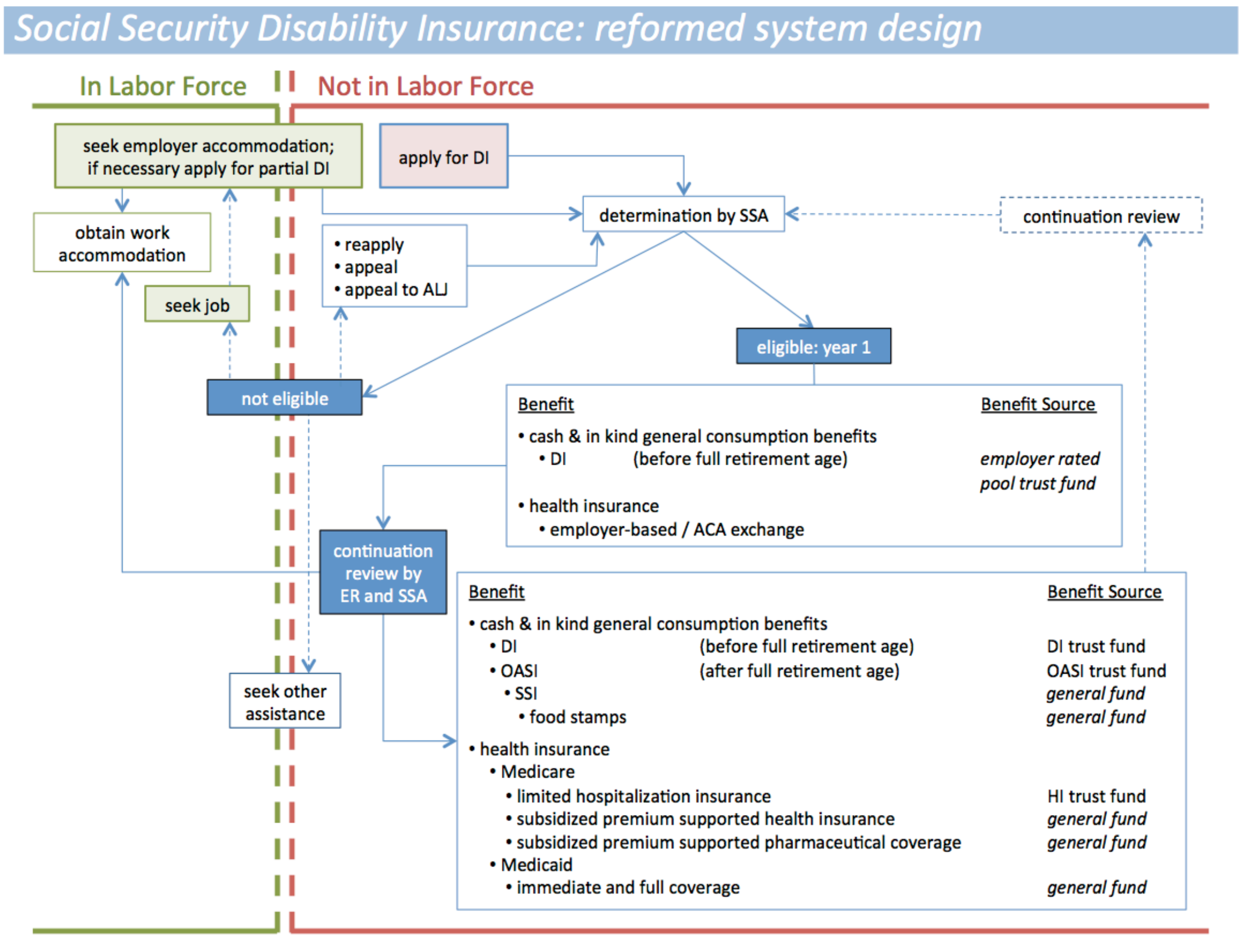
Much like the experience-rating proposal, age-occupation-industry experience ratings should be applied to the evaluation process. Those ratings would likely improve public confidence in the fairness of the system.

Those reforms feed into the overall reform framework; we strongly believe that partial and temporary awards have a place in the DI system—something the current Social Security Disability Insurance system does not allow. Administration of any partial or temporary disability awards would require mandatory continuing review to ensure compliance. We suggest annual reviews in a system such as Autor and Duggan's, randomized along the lines discussed earlier, as *presenting the opportunity for the system to encourage return to work, and, at the very least, not penalize an individual's decision to return to work.*

As stated previously, under the current Social Security Disability Insurance program, a person is either disabled or not. A person suffering from back pain who is able to work part time is not considered disabled; another who cannot work even part time but who is expected to recover in 6 to 10 months is also not considered disabled. Hence, neither person would be eligible for disability benefits under the current system. One option for reform would be to allow individuals who have a disabling limitation that would allow them to still work 20 hours per week to receive a partial disability award—in this case, 50 percent. The partial award would be time limited—to one to two years—and would require the beneficiary to undergo a disability review by the SSA before benefits could continue after the initial time period has expired. That sort of policy is notable in that it may increase the number of people on the DI rolls yet reduce program outlays in the long run; it could also increase the tax base supporting the program.

The same idea underscores the reform concept of a temporary disability award. If a person suffers from a condition that precludes any work, but the applicant could recover with time or treatment, partial or full benefits could be awarded for a limited time—again, one to two years. At the end of the period, the benefits would cease subject to a review of the beneficiary's medical condition. A basic schematic diagram of this sort of design is offered in figure 8.

Figure 8. Reformed Program Design with One-Year Continuation Review



Note: ACA = Affordable Care Act (2009); ALJ = administrative law judge; DI = Disability Insurance; ER = employer (or previous employer); HI = Medicare Part A Hospital Insurance; OASI = Old-Age and Survivors Insurance; SSI = Supplemental Security Insurance.

The big difference between the proposed system and the current one is the proposed system's integration of the eligibility determination with employers' responsibilities under the ADA. Also, the initial DI award is now always temporary, with a mandatory one-year continuation review. In the proposed system, the responsibility for that review would be shared between the employer (or previous employer), denoted "ER"—who would have to provide private DI—and the SSA.[32]

Alternatively, under a reformed system that involves a private market, in which employers pay the premiums to cover the first two years of disability payments, at the one-year mark the reviewer would evaluate the worker's ability to return to his or her previous position, either full or part time. The positive experience-rating incentive should be large enough to motivate employers to rehabilitate employees whenever such rehabilitation is useful and humane. At the second-year mark, the time of potential transfer to the DI trust fund, reevaluation should be broader in terms of opportunities for employment outside the employer and occupation previously held. Again, conditional on useful and humane employment, the design affords an opportunity to acknowledge the dignity afforded by the ability to work, as well as the dignity of full or partial exit from the workforce in the face of significant suffering resulting from disability. Of course, further research into the costs and benefits of such a system—and the effects that such a system would have on LFP—would have to be conducted. From a fiscal policy standpoint, getting able-bodied people back into the workforce increases the DI and OASI trust fund contributions and reduces likely dependency on public health insurance. From the households' perspective, the policy leaves them with better income and better retirement income prospects.

[32] Under this basic scheme, individuals with verified medical conditions, for which the impairment is permanent or likely to result in death within 12 months, would receive permanent disability benefits and not be subject to a mandatory one-year review.

Summary and Conclusions

Broadly speaking, the Social Security Disability Insurance program and the retirement program require reform. The DI program is fiscally unsustainable in both the short and long run and fails to provide a structure for individuals with disabilities who could return to work (part or full time) and find gainful and dignified employment. Absent reform or legislative funding changes, if the Social Security Disability Insurance trust fund becomes insolvent in 2016, the reduction in benefit payments to disabled beneficiaries, which is meant to preserve the US budget's sustainability, will create discrete shocks in the treatment of disabled workers; a result that strikes the authors as unfair. Additionally, the welfare component of the program, SSI, would likely experience a spillover effect; thus the general fund of the US federal government would be impacted negatively.

Many people have suggested that the OASI and DI trust funds simply be merged. Merely merging the two trust funds or reallocating the payroll tax ratio to provide more funding for the disability program at the expense of the retirement program would create a difference in the intergenerational treatment of older workers—something else that strikes the authors as unfair. That merging also would remove any pressure that Congress and the president might feel in 2016 to offer meaningful program reforms.

Interfund borrowing is a short-gap legislative option, in which the disability trust fund would "borrow" from the retirement trust fund. All borrowed funds would have to be paid back with interest. The benefit of interfund borrowing is that it provides a mechanism to maintain coverage for disabled beneficiaries at fully funded levels, but it has the additional benefit of public transparency, whereby the public (and policymakers) will have to bear witness to the continued financial weakness of the DI trust fund. An annual accounting of how much the DI trust fund is borrowing from the retirement trust fund would keep continued pressure on legislators to pass fundamental reforms to the program.

We believe that the best opportunities for reforming the social insurance system will honor personal and public finances and will be holistic in scope. We further believe that such designs are feasible. What those proposed reforms require is an incremental design approach, with long-term phase-ins and consideration of the roles of each social insurance component, along with a reconsideration of the roles and responsibilities that private insurance, employers, and individuals have in society.

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