Five Major Problems with the Disability Insurance Program

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Greg George
Senior Research Fellow

FGA
KEY FINDINGS

1. Disability insurance enrollment is rising at an unjustifiable rate.

2. Disability insurance is one bad economy away from insolvency.

3. Disability insurance is not reflective of the modern labor market.

4. Disability insurance promotes long-term dependency over work.

5. The structure of disability programs encourages states to move people onto the program.

BOTTOM LINE:
It is time to reform the broken disability insurance program.
Overview

The current federal disability system is broken and desperately needs reform. The program has diverged from its original design as a safety net for the permanently and severely disabled, instead becoming a lifestyle for too many adults with manageable work limits. While many of these recipients have substantial disabilities, many individuals have much more manageable work limitations and are more work-capable in the modern American economy.

With a growing and diverse economy and a work environment that is accepting of the disabled, there is no better time than now to make significant changes to the disability insurance program, ensuring resources are preserved for the truly needy.

What is disability insurance?

The Social Security Administration (SSA) operates two different disability programs: Social Security Disability Insurance (SSDI or DI) and Supplemental Security Income (SSI).

The SSDI program, enacted in 1956, is a federal program that provides monthly cash benefits to disabled workers and their dependents.\(^1\) To become eligible for SSDI, a worker must earn enough work credits given their age. In 2018, a worker earns one work credit for every $1,320 in earnings; a worker may earn up to four work credits per year.\(^2\)

Monthly benefits are based on an individual’s work history and career-average earnings in jobs covered under Social Security.\(^3\) After 24 months, all SSDI beneficiaries are eligible for Medicare.

\(^1\) The Social Security Administration (SSA).

\(^2\) SSA.

\(^3\) SSA.

IN DECEMBER 2016, ROUGHLY 10.1 MILLION INDIVIDUALS WERE RECEIVING SSDI BENEFITS.\(^4-5\)
SSI, which went into effect in 1974, is a need-based program that provides a flat, monthly cash benefit to aged, blind, and disabled individuals who have limited income and assets. SSI recipients are eligible for Medicaid in most states.

For purposes of both programs, the federal government defines disability as the inability to earn $1,180 per month ($14,160 per year) because of any medically determinable physical or mental impairments. The government calls this substantial gainful activity (SGA). To meet the definition of disability, impairments must also be expected to continue for more than a year or be expected to result in death.

Disability insurance pays only for total disability, meaning recipients are unable to earn more than the SGA limit. Benefits are not payable for short-term disability or partial disability. The result of this is that regardless of how work-capable recipients are, they are considered fully disabled and eligible for full benefits, which creates a disincentive to work, look for work, or train for work.

There are also no lifetime limits or benefit caps. Benefits will continue to be paid as long as the recipient meets the definition of disability or until they reach full retirement age when SSDI benefits are converted into traditional Social Security retirement benefits. This makes sense for disabled individuals with the most severe work limitations and ailments. But, for those adults with manageable work limitations and many prime working years left, it creates an opportunity for a lifetime of dependence.

What is the disability determination process?

The application process for SSDI and SSI disability benefits is very similar. Both employ a five-step evaluation process to verify that an applicant meets the medical and other eligibility criteria.
SSA’s Disability Determination Process for SSDI and Adult SSI Claimants

**STEP 1: WORK TEST**
Is the individual working and earning over SGA?

- **YES**
- **NO**

**STEP 2: SEVERITY TEST**
Is the applicant’s condition severe enough to limit basic life activities for at least one year or to result in death?

- **YES**
- **NO**

**STEP 3: MEDICAL LISTINGS TEST**
Does the condition meet SSA’s medical listings, or is the condition equal in severity to one found in the medical listings?

- **YES**
- **NO**

**STEP 4: PREVIOUS WORK TEST**
Can the applicant do the work he or she had done in the past?

- **YES**
- **NO**

**STEP 5: ANY WORK TEST**
Does the applicant’s condition prevent him or her from performing any other work that exists in the national economy?

- **YES**
- **NO**

**BENEFITS AWARDED**

**BENEFITS DENIED**
If a state disability determination services (DDS) examiner determines that an individual does not meet the medical listing or equivalency test (Step 3) and is unable to perform their previous work (Step 4), the examiner will then use the SSA’s medical-vocational guidelines (Step 5)—which consider a worker’s age, education, skills, and capacity for work—to determine whether a claimant can perform any other work that exists in the national economy.

It is within Steps 4 and 5 that more subjective determinations come into play and the five major problems within the disability program form.

**Problem 1: Disability insurance enrollment is rising at an alarming rate.**

Disability insurance (SSDI) began as a relatively small-scale program for individuals deemed unable to work because of a permanent disability. It has now outgrown its original purpose, transforming into a massive system that provides benefits to one out of every 20 working-age individuals.\(^{11-13}\)

In recent years, many have moved off the disability rolls and back into the workforce due to the much-improved national economy, but not enough to protect the integrity of the program for those who rely on it.

The number of former workers receiving disability insurance increased from five million in 2000 to 8.8 million by 2016.\(^{14}\)

To put this into context, caseloads have increased more than twice as quickly as the working-age population since 2010.\(^{15}\)

Some of the enrollment spike can be explained simply by more people qualifying for the program—the aging of the baby boomer generation, the number of women now working who qualify by meeting the number of required work credits, and small increases in the retirement age.

However, it is estimated that up to 57 percent of the increase is not attributable to these factors. Poorer health of working-age individuals is not the cause either, as the percentage of working-age individuals in fair or poor health and those reporting work limitations have remained stable over time.\(^{17}\)
Thus, much of the increase comes from programmatic and eligibility changes that have over time allowed more individuals with more manageable limitations into the SSDI program.

The biggest reason enrollment in SSDI has grown so dramatically can be attributed to changes to the screening criteria during the disability determination stages: more people have been deemed eligible for the program and incentivized to apply for benefits.

Systemic changes made in the 1980s directed SSA to give additional consideration to subjective factors when making disability determination decisions. This, combined with the use of the medical-vocational grid, has disproportionately increased harder-to-determine ailments and contributed significantly to the alarming growth of the program. In fact, difficult-to-diagnose and subjective disorders accounted for more than 50 percent of total disability awards in 2016.

Ultimately, someone diagnosed with Amyotrophic Lateral Sclerosis (ALS) and someone diagnosed with chronic back pain through the medical-vocational grid are treated the same under the current disability system.

**Problem 2: Disability insurance is one bad economy away from insolvency.**

With the increased number of workers receiving disability insurance comes an increase in costs. Over the next decade, the costs of SSDI are expected to double, reaching $216 billion by 2028.

According to SSA estimates, the SSDI Trust Fund reserves will be depleted by 2032. While the booming economy has seemingly improved the longevity of the fund in recent years, it is only one economic downturn away from insolvency.

Unless something changes, a new generation of workers will start their careers with a system that is not set up to care for them in case of a life-altering diagnosis.

Absent major policy changes, mandatory reductions in SSDI benefits are on the horizon, threatening resources for truly needy adults and children with permanent disabilities.
Problem 3: Disability insurance is not reflective of the modern labor market.

The current SSDI program is not reflective of the modern economy or America’s diverse workforce. While the U.S. labor market has gone through dramatic changes since the SSDI program was created, the program has lagged behind.

More people continue to receive full disability benefits and remain on the program despite advances in medical technology and medications, changes in the workforce, and laws banning workplace discrimination for individuals with disabilities. Work today is less physical and technological advancements and medical treatments have allowed many workers with limitations to continue to work with modest assistance in their current jobs or more easily train for new jobs. While jobs involving physical labor still exist today, machines and computers help those with physical limitations work even in previously labor-intensive jobs like factories.

More opportunities also now exist for nontraditional forms of employment. Technological advances have created opportunities for businesses to use freelance workers rather than in-house employees. This trend provides workers—especially those with disabilities or smaller work limitations—the opportunity to choose their hours and benefit from flexible work arrangements.

Federal law has required employers to make accommodations for the disabled since Congress passed the Americans with Disabilities Act of 1990 (ADA). But unfortunately, since the passage of the ADA, employment amongst disabled individuals has continued to decline. This is likely because the current setup of the SSDI program creates different incentives and does not match the goals of the ADA: equality of opportunity, full participation, independent living, and economic self-sufficiency.

The current medical-vocational grid is also not reflective of our modern labor market. Workers as young as 45 years old—with 20 or more prime working age years left—can qualify for disability through the grid. This is how adults with manageable work limitations get into the program.
Problem 4: Disability insurance promotes long-term dependency over work.

One of the most troubling issues with the federal disability system is that work supports are only provided for recipients after they painstakingly prove they cannot work.26

Disability applicants spend a significant amount of time, money, and energy demonstrating they cannot work. On average, these cash benefits are worth more than $14,000 per year, with additional Medicare benefits worth over $10,000 per year.27-28 Understandably, many fear losing their monthly cash payments and health care coverage.

The troubling consequence of this structure is that most individuals never leave SSDI. In fact, the number of workers removed from the program, because they no longer qualify, has also decreased by over half since changes were made in 1984 to SSDI.29

In 2016, just under nine percent of disabled workers had their benefits terminated.30 Only about one percent (fewer than 100,000 people) had their benefits terminated because they experienced medical improvement, earned more than the SGA, or were not complying with disability rules.31

Many people on disability can and do work, which is why the SSA allows individuals to earn up to a certain amount of income per month and provides free employment services to recipients.32 However, regardless of how work-capable recipients are, they are considered fully disabled and eligible for full benefits, which creates a disincentive to work, look for work, or train for work.

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Problem 5: The structure of disability programs encourages states to move people onto disability.

Hospitals, insurance companies, and states have an incentive to move people from welfare onto disability because disability benefits are entirely paid for by the federal government.

Consequently, these groups have been helping individuals receiving state or county assistance apply for federal disability programs. Their goal is to shift costs to federal taxpayers, as states and counties are currently paying for a portion of their cash welfare benefits, while the federal government picks up the full cost of disability.

But this is short-term thinking. Many of those individuals will stay on disability forever, which could increase states’ Medicaid costs over time.

In 2014, the Government Accountability Office (GAO) identified 16 states with contracts to assist them with moving individuals onto disability.\(^3\)

For example, Missouri contracted with a private company, paying the company $2,300 every time it moved a person from the state’s cash welfare program onto federal disability.\(^4\) After several media reports surfaced in 2015 regarding this contract, Missouri eliminated that portion of the contract.

Worse yet, when states, counties, hospitals, and companies assist moving people from welfare programs to federal disability, they are moving individuals from programs with a work requirement to a program that disincentivizes work.
Bottom Line: It is time to overhaul the broken disability insurance program.

The current federal disability system is broken and requires reform. With a growing economy and a work environment that is accepting of the disabled and work-limited, there is no better time than now to make significant changes to the disability insurance so program resources are protected for the truly needy.

Policymakers on both sides of the aisle understand we need to reform disability insurance and have begun a bipartisan effort to identify potential improvements and changes to the SSDI program.35-36

While Congressional action is needed to make some structural changes, the current Administration has a number of regulatory changes available to improve the program, rein in abuse, and protect resources of the truly needy.37

These reforms to the U.S. federal disability system would improve the eligibility determination process to make it less subjective, promote work over dependency, reduce the correlation between high unemployment and increases in disability awards, and, most importantly, improve the outcomes for all people with disabilities.
REFERENCES

5. Ibid.
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11. Author’s calculations based on data provided by the Social Security Administration on program enrollment and by the Census Bureau on the total number of adults between the ages of 18 and 64.
15. Author’s calculations based upon data provided by the Social Security Administration and the Census Bureau on program enrollment and working-age population between 2010 and 2016.


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31. Ibid.


