

Social Security Disability Insurance

Understanding the Past and Preparing for the Future

National Academy of Social Insurance
26th Annual Policy Research Conference
January 29-30, 2014

Mary C. Daly
Senior Vice President and Associate Director of Research
Federal Reserve Bank of San Francisco

The findings and conclusions expressed in this presentation are solely those of the author and do not represent the views of the Federal Reserve Bank of San Francisco or the Federal Reserve System.

Purpose of this Talk

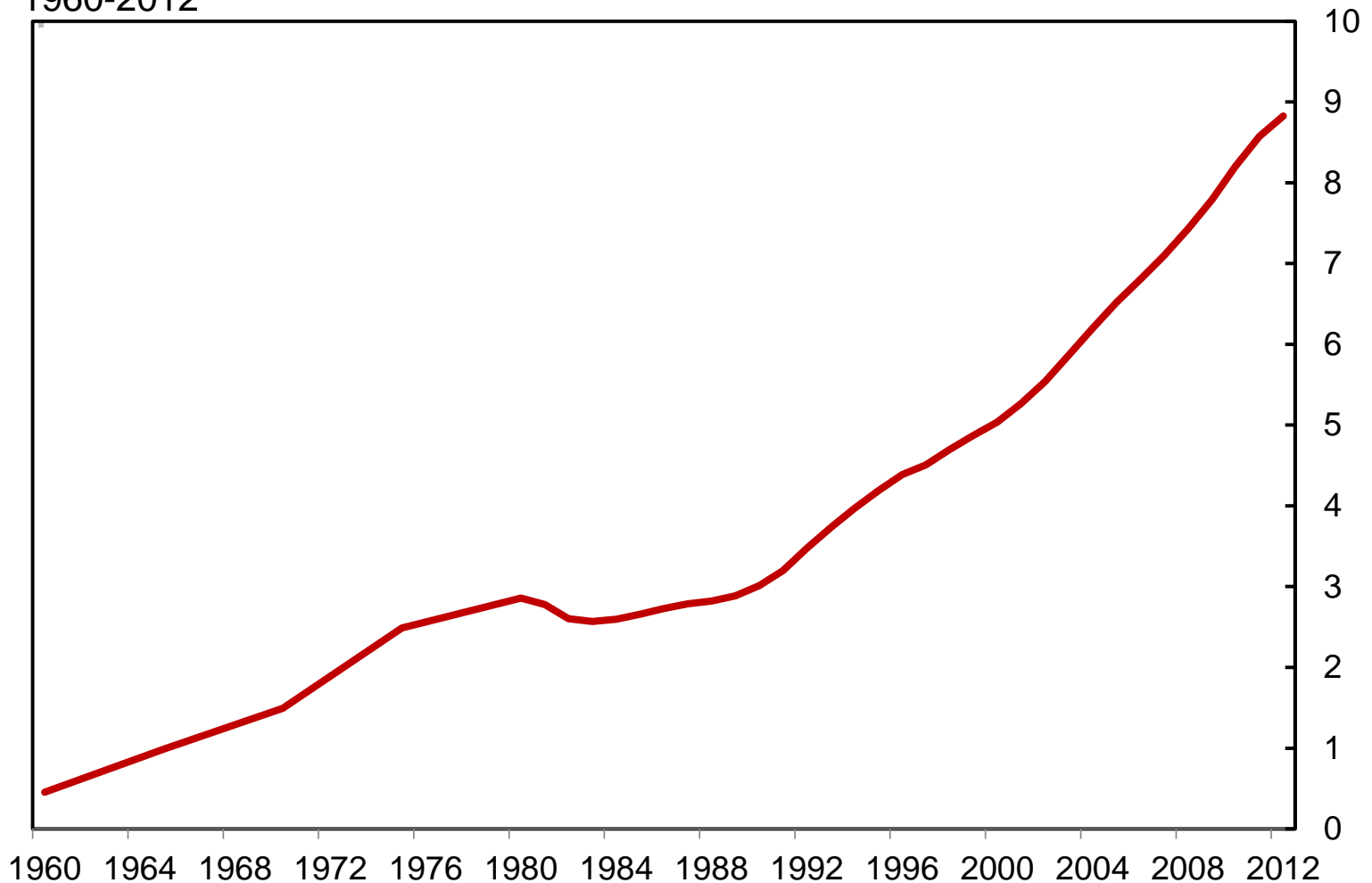
- Review factors driving growth in the SSDI program
- Challenge three ideas:
 - Demography accounts for most of the increase
 - All the pressure on growth is behind us
 - One-time changes to taxes or benefits will restore solvency to SSDI
- Suggest that fundamental reform is necessary, possible, and consistent with a strong commitment to people with disabilities and their families

SSDI Caseloads are Rising

SSDI Beneficiaries in Current Payment Status

1960-2012

Millions



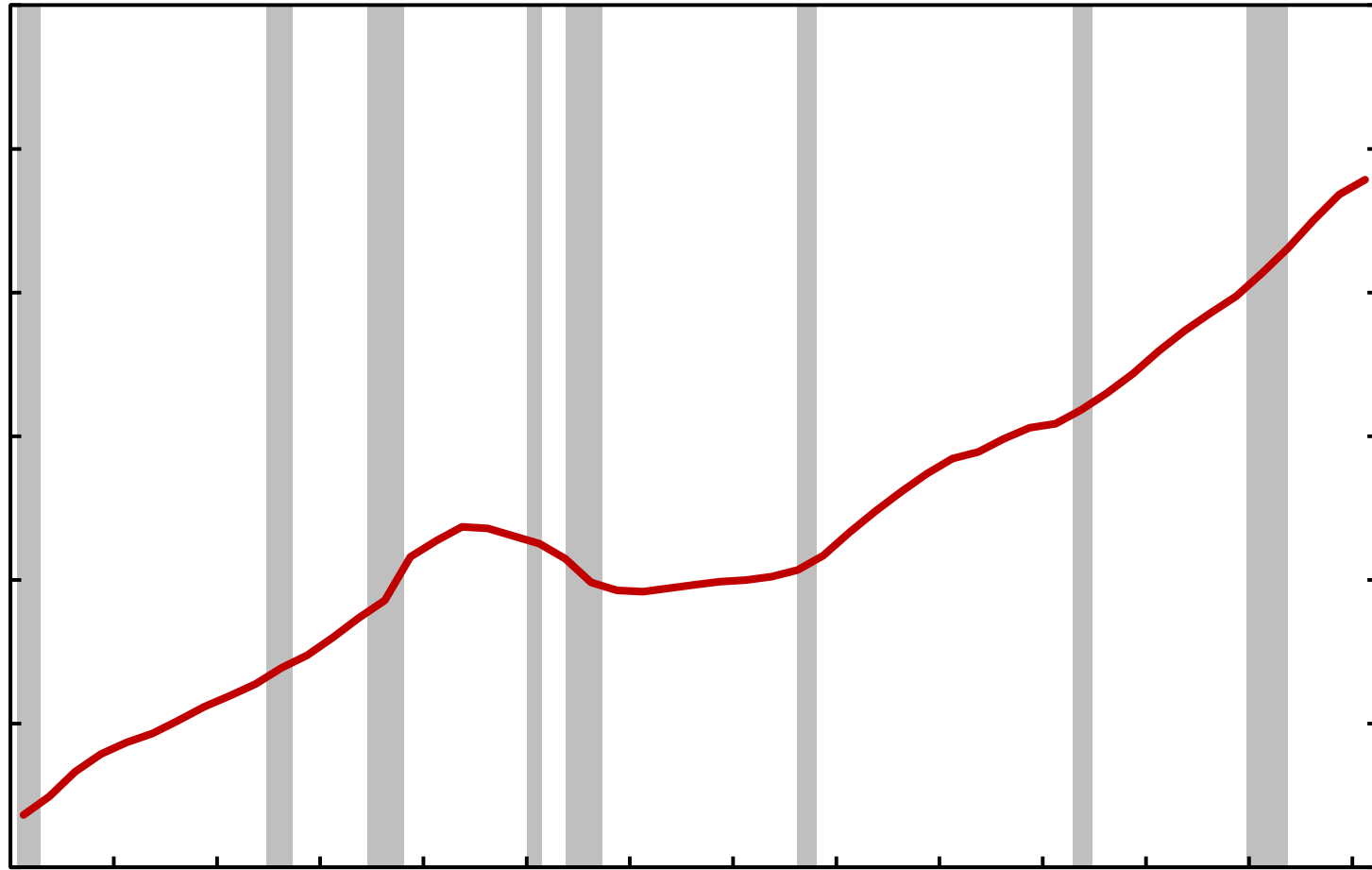
Source: Annual Statistical Report on the Social Security Disability Insurance System 2012, gray bars denote NBER recession dates

Not Just Population Growth

SSDI Prevalence

Beneficiaries per 100 insured population 20-64

%
6
5
4
3
2
1
0

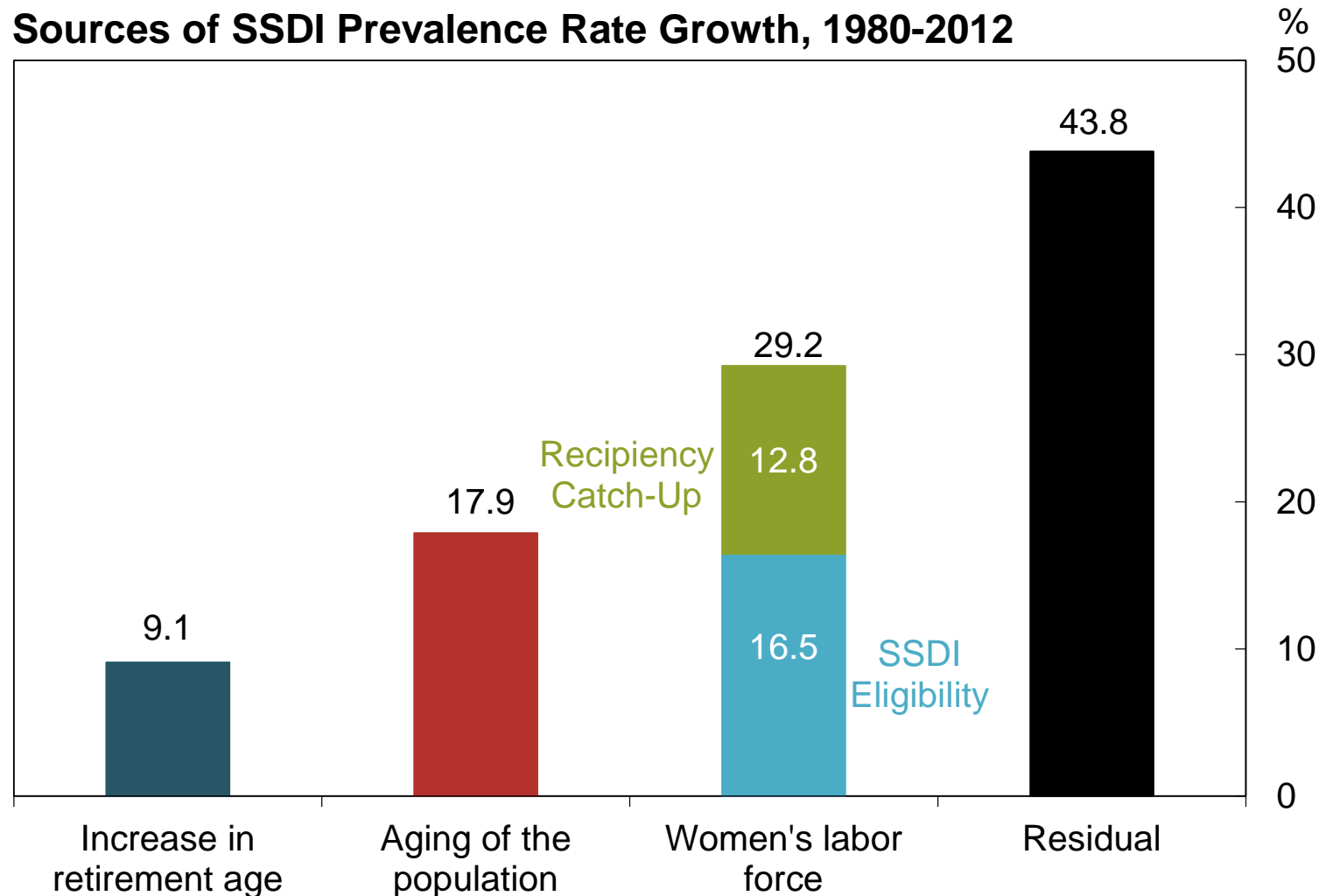


1960 1964 1968 1972 1976 1980 1984 1988 1992 1996 2000 2004 2008 2012

Source: Social Security Administration and Census Bureau, gray bars denote NBER recession dates

Nor Other Demographic Factors

Sources of SSDI Prevalence Rate Growth, 1980-2012

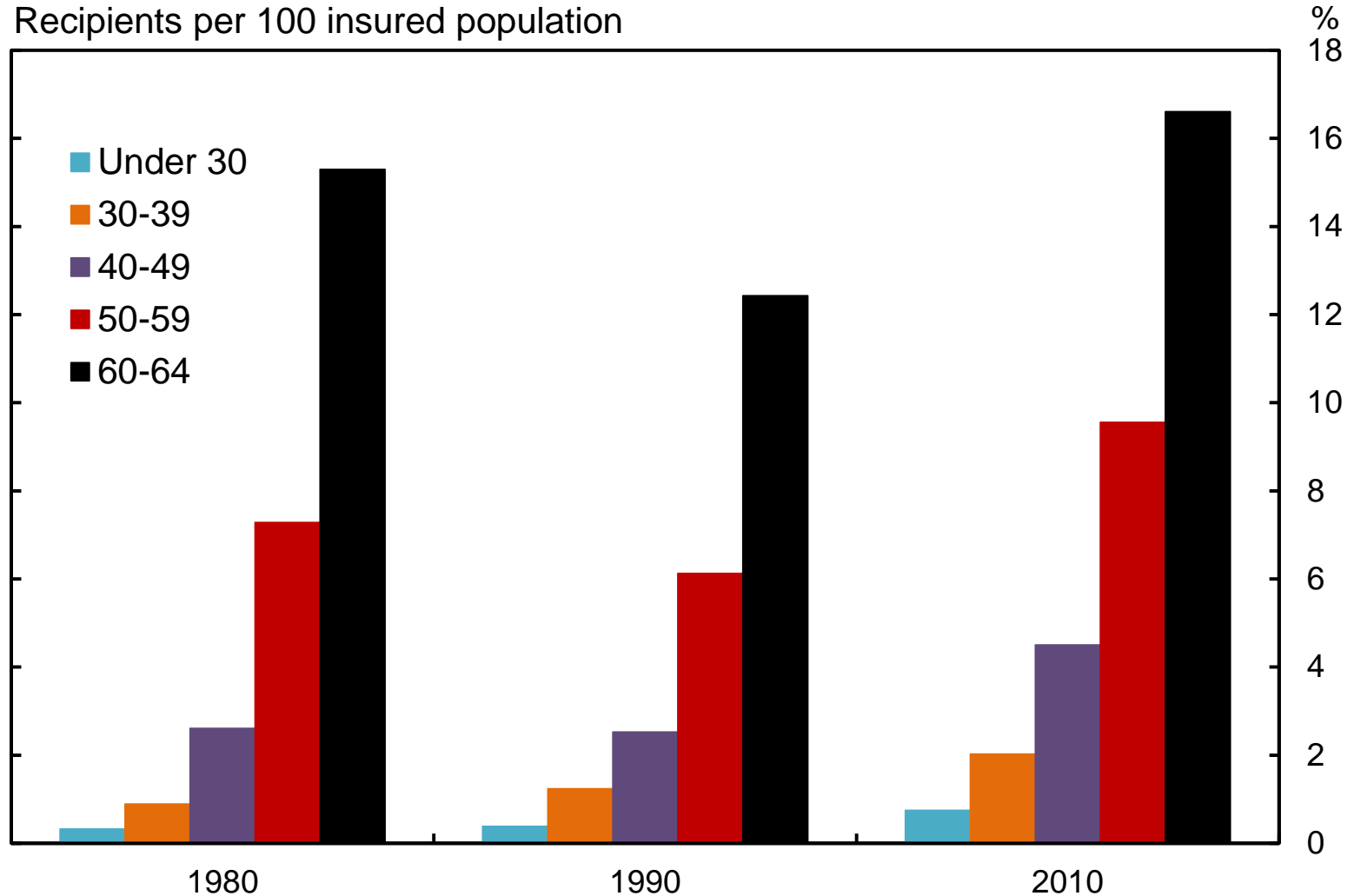


Source: Social Security Administration, Bureau of Labor Statistics, and FRBSF Staff Calculations. <http://www.frbsf.org/economic-research/publications/economic-letter/2013/june/future-social-security-disability-insurance-ssdi/>

Residual Reflects Rising Prevalence

SSDI Prevalence by Age

Recipients per 100 insured population

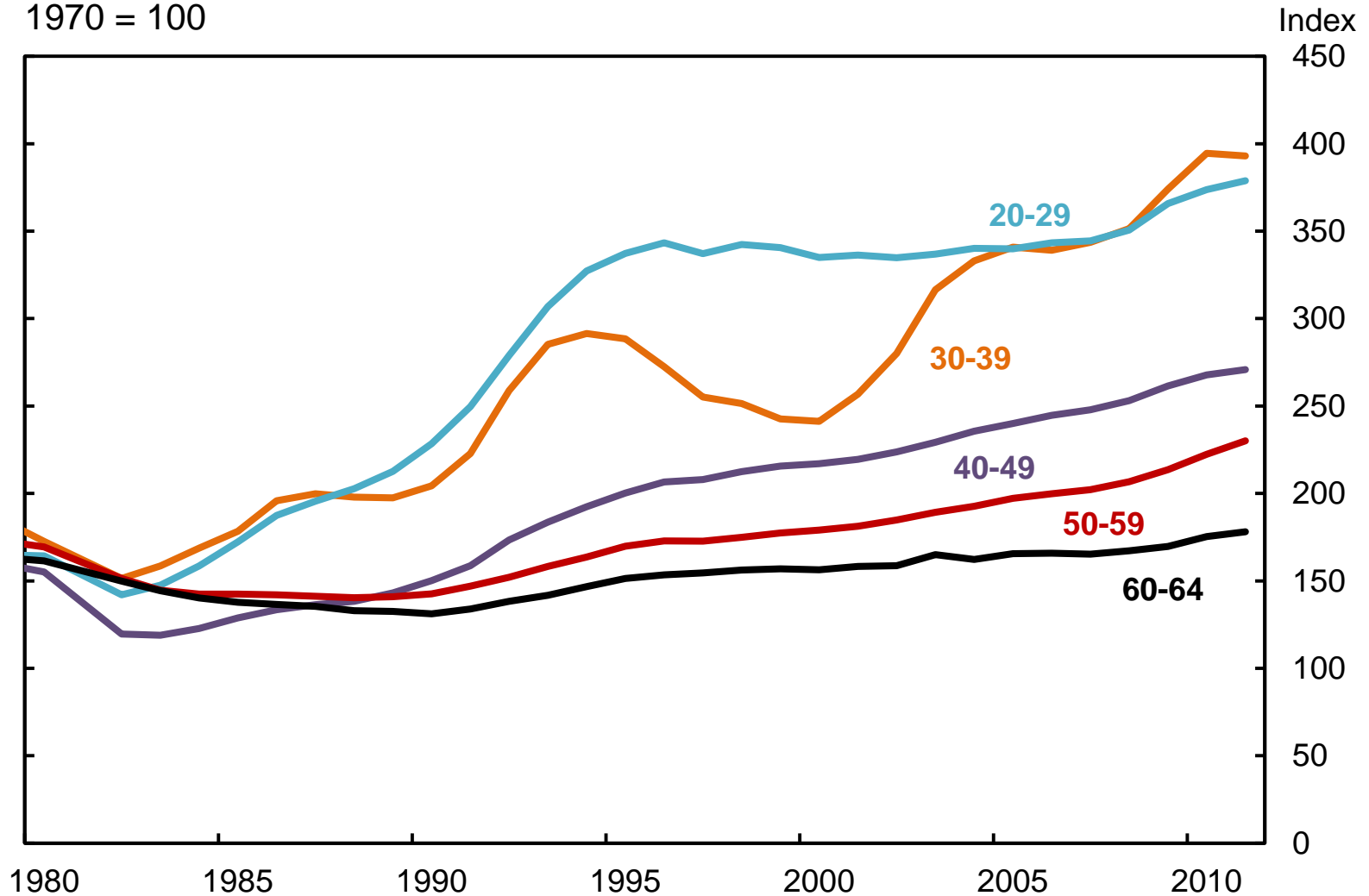


Source: Social Security Administration and FRBSF Staff Calculations

Most Rapid Growth at Younger Ages

Normalized Growth in SSDI Prevalence by Age

1970 = 100



Drivers of Rising Prevalence

Higher inflows onto the program

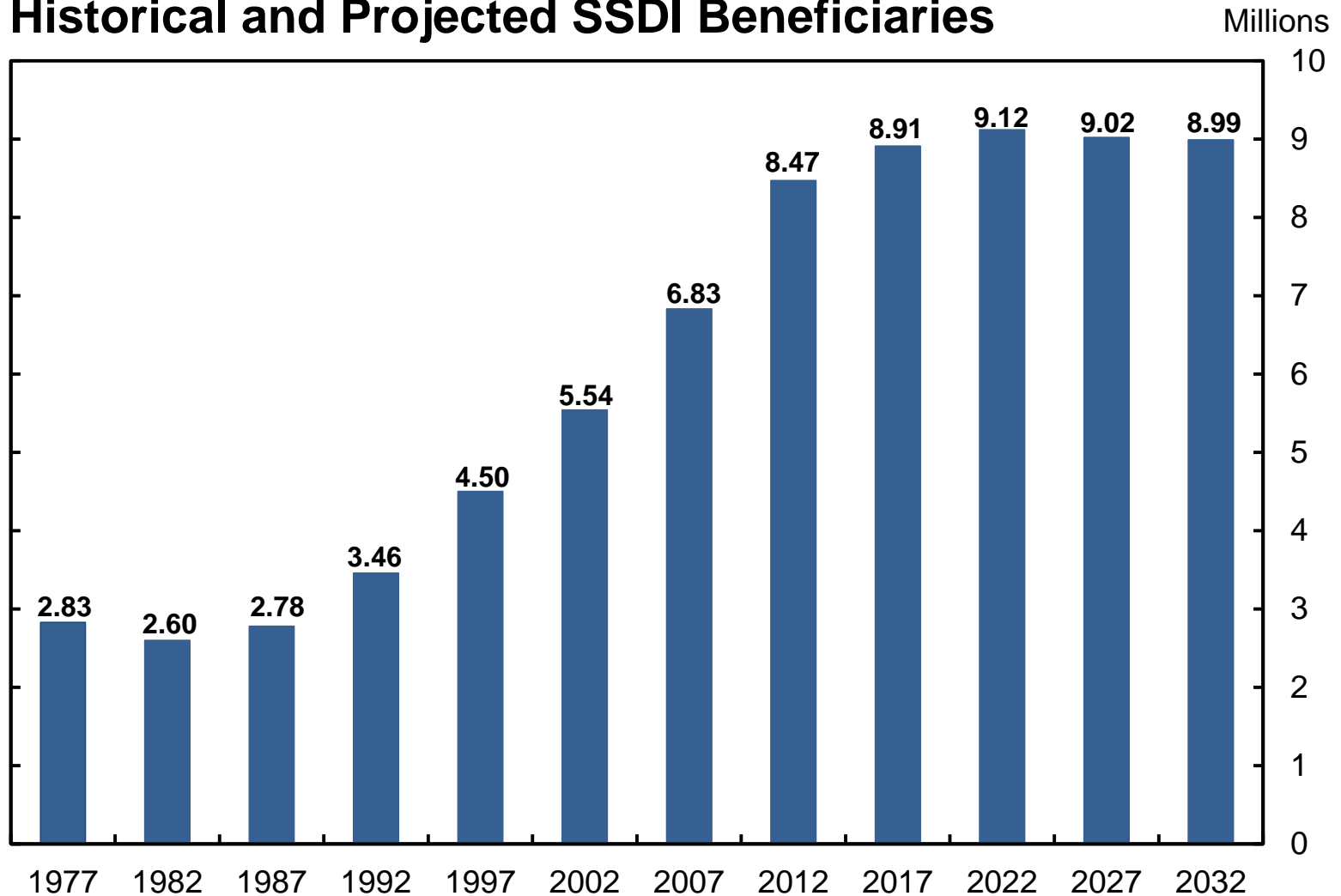
- Increased enrolment on less stringent medical criteria
- More beneficiaries qualifying on vocational criteria
- SSDI replacement rates rising for low wage workers
- Program increasingly sensitive to business cycle

Lower exit rates from the program

- Declines in SSDI mortality rates
- Lower recovery rates of SSDI enrollees

OCACT Projects Significant Slowdown

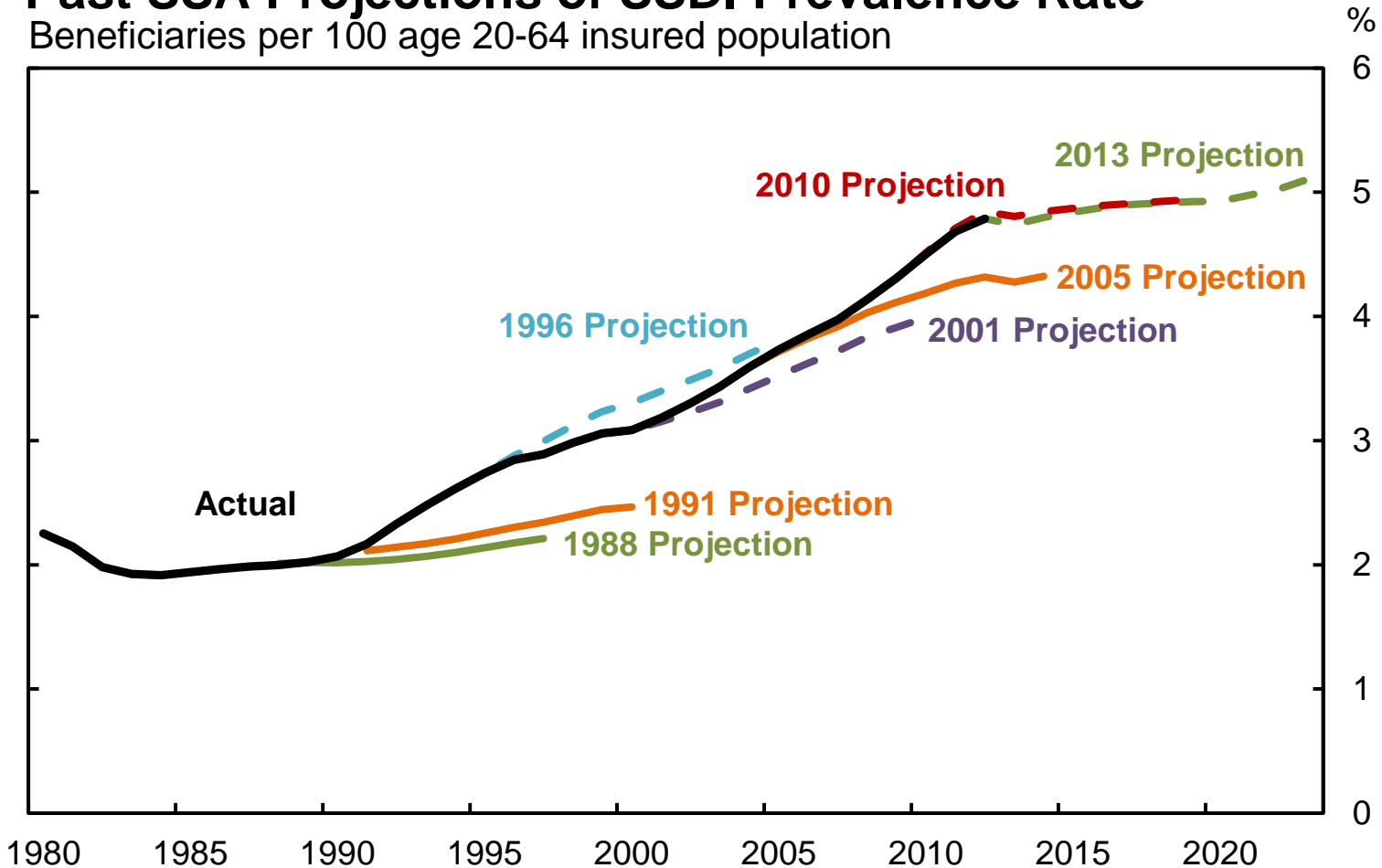
Historical and Projected SSDI Beneficiaries



But OCACT Often Under-predicts

Past SSA Projections of SSDI Prevalence Rate

Beneficiaries per 100 age 20-64 insured population

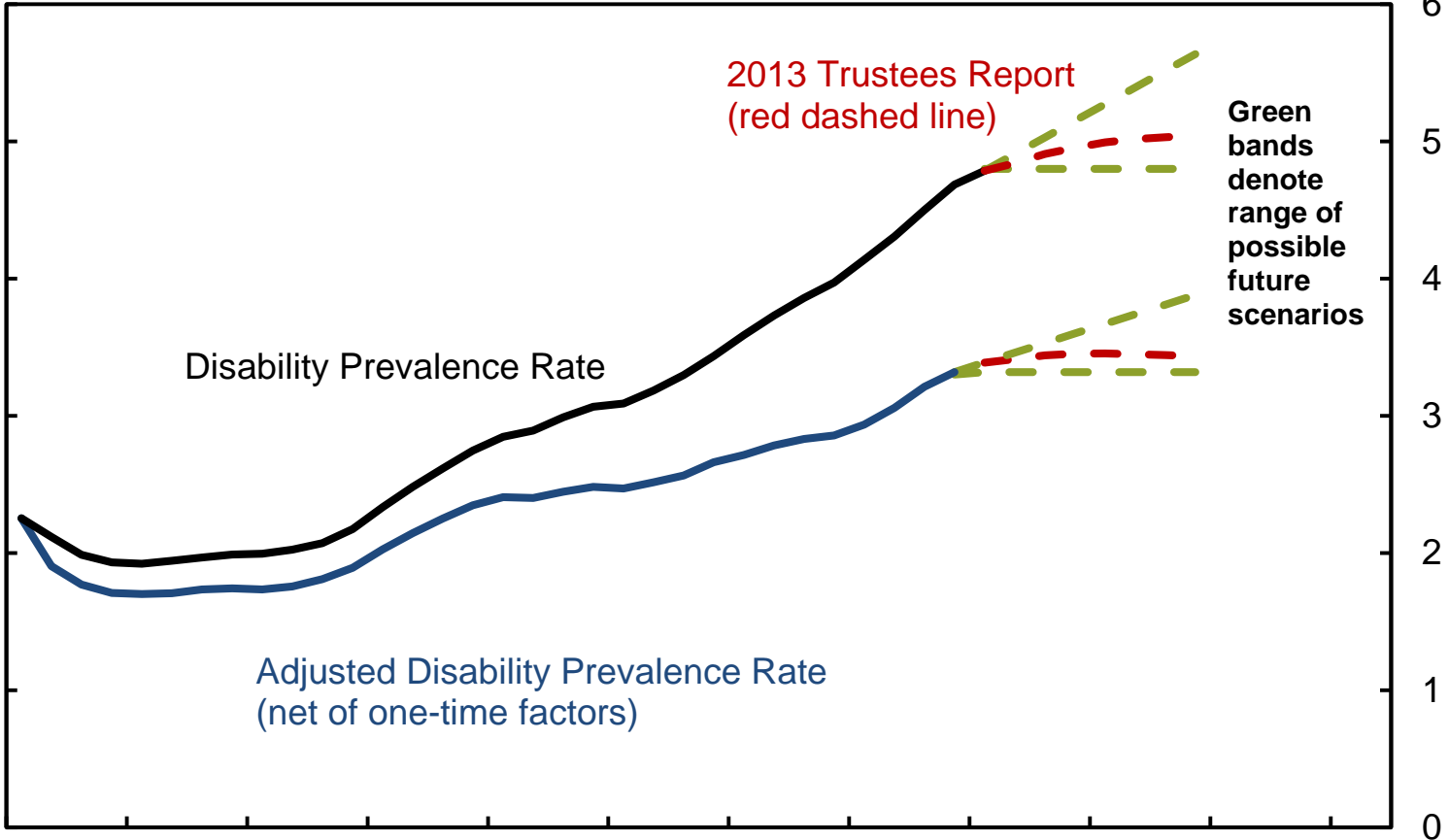


Source: Short and Long range Actuarial Projections of the Old-Age, Survivors, and Disability Insurance Program, (various years), Bureau of Labor Statistics, Census Bureau, and FRBSF Staff Calculations. <http://www.frbsf.org/economic-research/publications/economic-letter/2013/june/future-social-security-disability-insurance-ssdi/>

Additional Growth is Quite Possible

Scenarios of Future SSDI Growth

Beneficiaries per 100 age 20-64 insured population



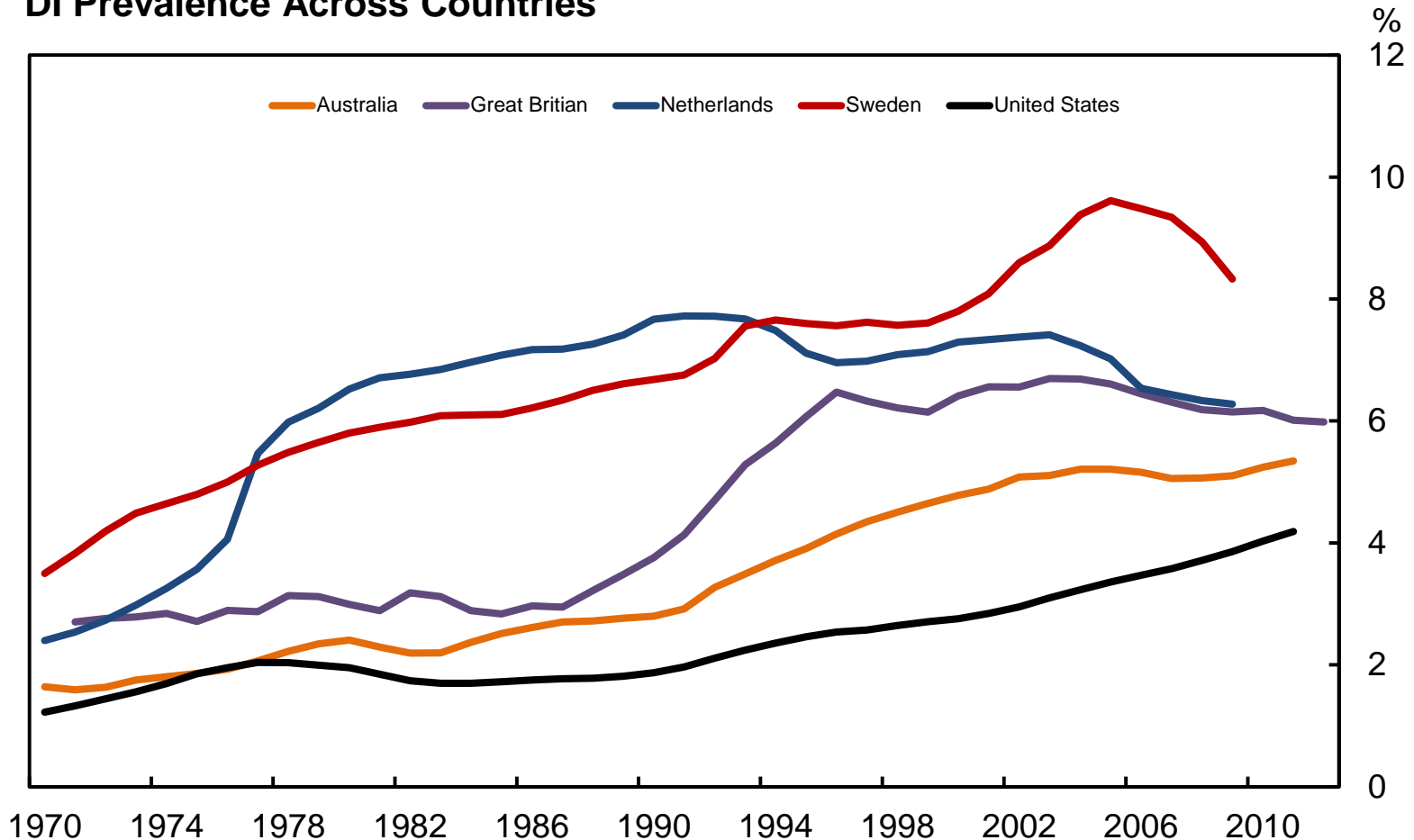
Source: Short Range Actuarial Projections of the Old-Age, Survivors, and Disability Insurance Program (2013), Census Bureau, and FRBSF Staff Calculations. <http://www.frbsf.org/economic-research/publications/economic-letter/2013/june/future-social-security-disability-insurance-ssdi/>

What Should We Do?

- Numbers suggest that one-time solutions won't put the program back on a sustainable path
- More fundamental reforms are required
- The U.S. is **not** the first country to face this issue
- Look to the international evidence for guidance

U.S. Not Alone in Increased DI Receipt

DI Prevalence Across Countries

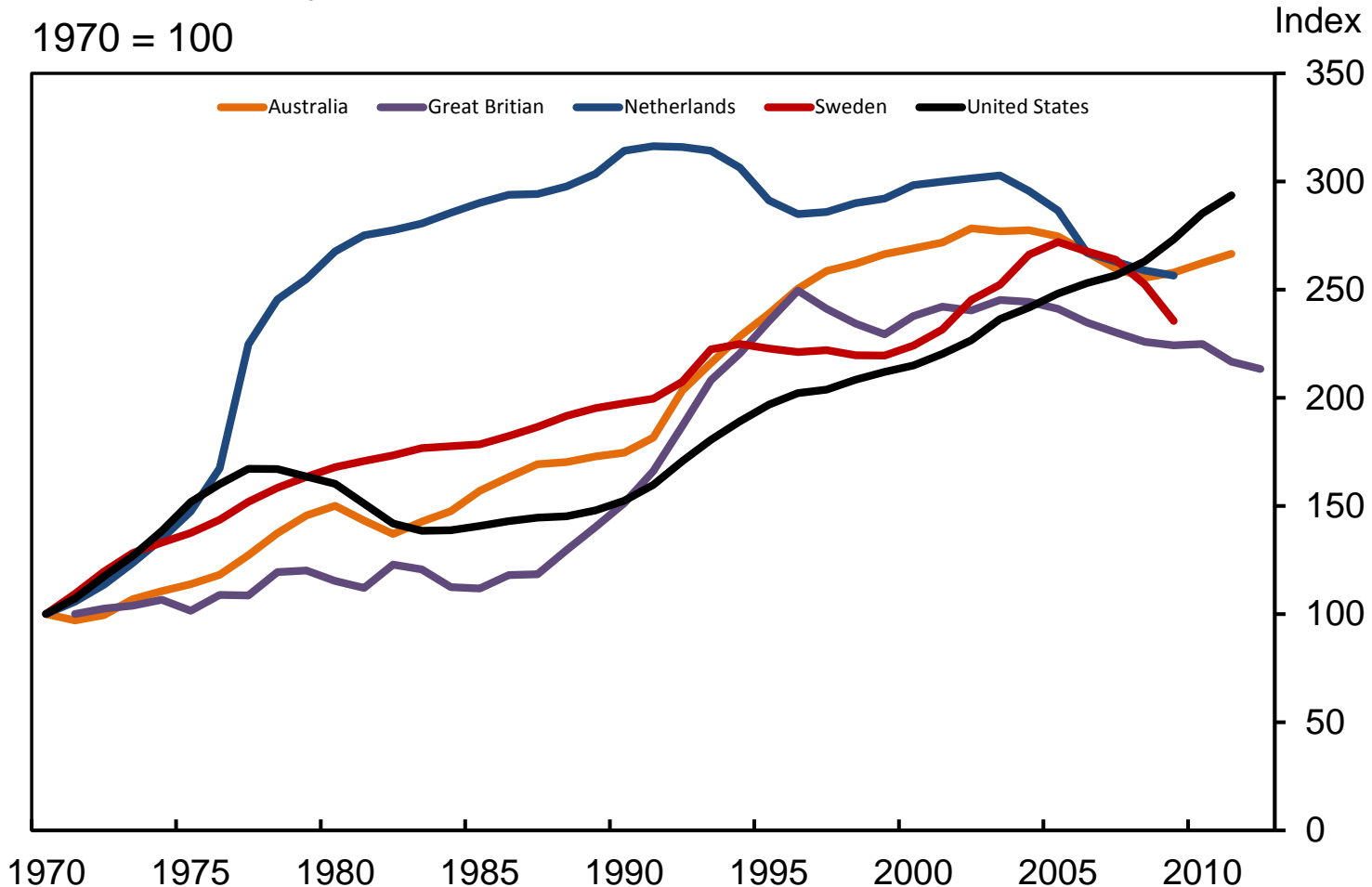


Source: Social Security Administration, US Census Bureau, Australian Government Department of Social Services, Australian Bureau of Statistics, Department of Work and Pensions, Office for National Statistics, Statistics Sweden and Swedish Social Insurance Agency yearbooks, Statistics Netherlands, and the Institute of Employee Benefit Schemes. Note: Calculation uses civilian population, not insured population. <http://www.frbsf.org/economic-research/publications/working->

But Running Behind in Addressing It

Normalized Adjusted DI Prevalence Across Countries

1970 = 100



Source: Social Security Administration, US Census Bureau, Australian Government Department of Social Services, Australian Bureau of Statistics, Department of Work and Pensions, Office for National Statistics, Statistics Sweden and Swedish Social Insurance Agency yearbooks, Statistics Netherlands, and the Institute of Employee Benefit Schemes. Note: Calculation uses civilian population, not insured population. <http://www.frbsf.org/economic-research/publications/working-papers/2013/wp2013-40.pdf>

OECD Calls for Fundamental Reform

1. There is an urgent need to address the “medicalisation” of labour market problems by tackling the widespread use of disability benefits across the OECD and promoting labour market participation of people with disability.
2. Many people with health problems can work and indeed want to work in ways compatible with their health condition, so any policy based on the assumption that they cannot work is fundamentally flawed.
3. Helping people to work is potentially a “win-win” policy: It helps people avoid exclusion and have higher incomes while raising the prospect of more effective labour supply and higher economic output in the long term.

Excerpt from the forward of *Sickness, Disability and Work: Breaking the Barriers*, 2010 OECD Publishing, Paris

Many Countries Have Implemented Change

Themes and lessons learned from their reforms

- Disability does not mean incapacity
- Policy incentives matter to all actors: workers with disabilities, employers, program administrators, state and federal agencies
- Stemming flows onto the program is easier than returning existing beneficiaries to the labor market, early intervention matters
- Maintaining workers with disabilities in the labor market is good for the individuals, their families, and the broader society/economy