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## **Social Security Disability**

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## Background

In the 2016 Social Security Trustees Report, the Social Security Disability Insurance (SSDI) program was projected to be able to pay full benefits through 2023.<sup>1</sup> In the coming years, policymakers have the opportunity to consider sensible reforms both to improve the performance of the program in meeting the needs of people with disabilities, and to secure its long-term solvency.

### *What is Social Security Disability insurance?*

Disability Insurance (DI) is insurance against loss of earnings due to a severe medical impairment that results in a significant work incapacity. Workers earn disability insurance protection by having worked and paid Social Security taxes.<sup>2</sup> The test of work incapacity is very strict: benefits are paid, after a five-month waiting period, only to individuals who have a medically determinable physical or mental impairment that precludes any substantial work activity and that is expected to last at least a year or result in death in less than a year. Applicants meet the test only if their impairments are of such severity that they are not only unable to do their prior work, but also unable – considering their age, education, and work experience – to engage in any other substantial gainful work that exists in the national economy.<sup>3</sup>

### *Who receives Social Security Disability benefits?*

In November 2016, 8.8 million workers received disabled worker benefits, as did 1.7 million of their children and more than 135,000 of their spouses. People who receive benefits are a subset of the tens of millions of adults who live with a disability. In 2010, 29.5 million adults ages 21 to 64 reported having a disability.<sup>4</sup>

Three-fourths of worker beneficiaries of Social Security disability are in their 50s and 60s.<sup>5</sup> Before becoming eligible for benefits, two-thirds of these workers had unskilled or semi-skilled jobs.<sup>6</sup> Less than one in six have a

<sup>1</sup> Board of Trustees, 2016, Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, Social Security Administration, Tables IV.B1 and IV.B4, <https://www.ssa.gov/oact/TR/2016/IrIndex.html>.

<sup>2</sup> To be insured, one must have worked at least one fourth of the time since age 21 and in at least five of the last 10 years (or in at least half of the time since age 21 if that is less than 10 years). In fact, recipients typically worked for most of their adult lives before becoming disabled; see Kathleen Romig, "DI Beneficiaries Have Extensive Work Histories," <http://www.cbpp.org/blog/di-beneficiaries-have-extensive-work-histories>.

<sup>3</sup> Jerry L. Mashaw and Virginia P. Reno, eds., 1996, *Balancing Security and Opportunity: The Challenge of Disability Income Policy*, Washington, D.C.: National Academy of Social Insurance, pages 89-90, [https://www.nasi.org/usr\\_doc/Balancing\\_Security\\_and\\_Opportunity.pdf](https://www.nasi.org/usr_doc/Balancing_Security_and_Opportunity.pdf); Social Security Act: Title II, §223 (d).

<sup>4</sup> Matthew W. Brault, 2012, "Americans With Disabilities: 2010," U.S. Census Bureau, <http://www.census.gov/prod/2012pubs/p70-131.pdf>.

<sup>5</sup> Social Security Administration, 2016, Annual Statistical Report on the Social Security Disability Insurance Program, 2015, Table 19, [https://www.ssa.gov/policy/docs/statcomps/di\\_ast/2015/index.html](https://www.ssa.gov/policy/docs/statcomps/di_ast/2015/index.html).

<sup>6</sup> Mark Trapani and Deborah Harkin, 2011, "Occupational and Medical-Vocational Claims Review Study," Presentation, Social Security Administration, <https://www.ssa.gov/oidap/Documents/PRESENTATION--TRAPANI%20AND%20HARKIN--OIDAP%2005-04-11.pdf>.

college degree.<sup>7</sup> States in the South, Appalachia, and the industrial Midwest have higher-than-average rates of DI receipt.<sup>8</sup>

### *Benefits are modest but essential to disabled beneficiaries*

Benefits for workers who become disabled replace about half of the worker's wages before becoming disabled.<sup>9</sup> The average monthly benefit for disabled workers is about \$1,170, or \$14,000 a year. For 60 percent of beneficiaries, Social Security benefits are more than 75 percent of their total income. One in five DI beneficiaries lives in poverty.

## Policy Challenges

### *Solvency*

Although part of the Social Security program, the DI program is financed through a separate trust fund from Social Security old age and survivor benefits. The DI trust fund can pay full benefits through 2023, at which point the DI trust fund will be depleted and thereafter will only be able to finance around four-fifths of benefits through 2090.<sup>10</sup> Under current law, DI benefits will therefore be reduced by approximately one-fifth unless legislative action is taken. Allowing for full payment of scheduled benefits will require action to increase revenue, reduce costs, share financial resources with the old age program (OASI), or some combination of these alternatives.

### *Understaffing and case backlog*

In order to be certified as eligible to receive benefits and to begin receiving them, potential Social Security disability beneficiaries must first apply for benefits at a local Social Security office and then submit medical evidence of their disability to (or attend a medical evaluation with) a state Disability Determination Services (DDS) agency. The Social Security Administration (SSA) will then make a determination of eligibility for benefits based on this evidence. If a potential beneficiary believes that benefits were denied to her improperly, she may request a formal hearing with an administrative law judge to review the evidence. The Social Security Administration currently lacks the resources to keep up with the need for these hearings to determine eligibility for disability benefits. SSA's administrative budget has declined 10

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<sup>7</sup> Michelle Stegman Bailey and Jeffrey Hemmeter, 2015, "Characteristics of Noninstitutionalized DI and SSI Program Participants, 2013 Update," Research and Statistics Note No. 2015-02, Office of Retirement and Disability Policy, Social Security Administration, <https://www.ssa.gov/policy/docs/rsnotes/rsn2015-02.html>.

<sup>8</sup> Kathy A. Ruffing, 2015, "Geographic Pattern of Disability Receipt Largely Reflects Economic and Demographic Factors," Center on Budget and Policy Priorities, <http://www.cbpp.org/research/geographic-pattern-of-disability-receipt-largely-reflects-economic-and-demographic-factors>.

<sup>9</sup> Center on Budget and Policy Priorities, 2016, "Policy Basics: Social Security Disability Insurance," <http://www.cbpp.org/research/retirement-security/policy-basics-social-security-disability-insurance>.

<sup>10</sup> Board of Trustees, 2016, Tables IV.B1 and IV.B4.

percent since 2010, leading to a 5 percent decline in SSA staff.<sup>11</sup> These budget and staffing cuts, moreover, are occurring at a time when caseloads are increasing due to Boomers being in their high-disability years. The average wait time for a hearing rose from 360 to 540 days between 2011 and 2016. The number of applicants awaiting a hearing has risen to over 1 million, an all-time high.<sup>12</sup>

### *Supporting work*

The Social Security Disability Insurance program is designed to pay cash benefits to workers who have limited work capacity because of a disabling condition. Under some circumstances, however, workers might be able to do limited work, if they were to receive the necessary accommodations and supports. Providing adequate accommodations and supports for work is primarily a challenge for disability programs more broadly, not the Social Security DI program in particular. State and private disability insurance programs face the same challenges in helping beneficiaries to work if they are able. Federal and state programs, such as vocational rehabilitation authorized under the Workforce Innovation and Opportunity Act, are the primary source of employment services and supports for jobseekers with disabilities. The DI program already contains a range of features designed to incentivize work, such as continuing payments while a beneficiary receives vocational rehabilitation services and offering a trial work period during which benefits will not cease because of the beneficiary's earnings. The 2015 law that temporarily reallocated taxes between the retirement and disability programs also called for additional demonstration projects to accomplish this goal.<sup>13</sup> But the program could still do more in this regard.

## **Reform Principles**

In designing reforms to the DI program, some core principles serve as a guide. They fall into three categories: extending solvency; addressing understaffing and case backlog; and supporting work.

### **Solvency**

#### *Avoid sudden benefit cuts and seek to achieve long-term actuarial balance*

The key to ensuring the continued ability of the system to provide disability protections to America's workforce lies in preventing sudden benefit cuts due to trust fund insolvency in the short term and achieving actuarial balance

<sup>11</sup> Kathleen Romig, 2016, "Budget Cuts Squeeze Social Security Administration Even as Workloads Reach Record Highs," Center on Budget and Policy Priorities, <http://www.cbpp.org/research/retirement-security/budget-cuts-squeeze-social-security-administration-even-as-workloads>.

<sup>12</sup> Ibid.

<sup>13</sup> Bipartisan Budget Act of 2015, P.L. 114-74; Kathleen Romig, Demonstrations to Promote Work Among Disability Beneficiaries Likely to Produce Limited Results, February 11, 2016, <http://www.cbpp.org/research/social-security/demonstrations-to-promote-work-among-disability-beneficiaries-likely-to>.

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in the long term. The DI trust fund is projected to require action by 2023 to maintain scheduled benefits. Policymakers should thus seek to extend solvency in order to preserve current benefit levels, ideally over the long term.

*Further strengthen program integrity, but recognize that eliminating all fraud will not yield significant cost savings*  
All Americans benefit from ensuring the integrity of their disability

protections. While reducing fraud in public programs is an inherently worthy goal, the cost savings from these efforts is not substantial. Disability insurance already has many safeguards against fraud and abuse, such as continuing disability reviews (CDRs) and strict eligibility standards.<sup>14</sup> Fraud is not responsible for the system's funding shortfall.<sup>15</sup> Proposals to further increase program integrity include increasing criminal penalties for fraud and improving Continuing Disability Reviews (CDRs).

### Understaffing and Case Backlog

*Ensuring the adequacy of resources to administer Social Security disability is a cost-effective proposition. Adequate funding can improve the timeliness of disability determinations, improve work supports, and deliver effective fraud detection.*

*Provide adequate resources to administer the program*

The costs of administering Social Security Disability are already low; administrative costs were less than 2 percent of benefit payments in 2015.<sup>16</sup> Ensuring the adequacy of resources to administer Social Security Disability is a cost-effective proposition. Adequate funding can improve the timeliness of disability determinations, improve work supports, and deliver effective fraud detection.

<sup>14</sup> Kathy Ruffing, 2015, "Disability Insurance Has Many Safeguards against Fraud and Abuse," Center on Budget and Policy Priorities, <http://www.cbpp.org/blog/disability-insurance-has-many-safeguards-against-fraud-and-abuse>.

<sup>15</sup> Bipartisan Policy Center, 2015, "Improve the SSDI Program and Address the Impending Trust Fund Depletion: Consensus Recommendations of BPC's Disability Insurance Working Group," <http://bipartisanpolicy.org/wp-content/uploads/2015/08/BPC-Economy-SSDI-Program.pdf>.

<sup>16</sup> Board of Trustees, 2016.



### *Improve DI administrative and adjudicative processes*

The application process could be made simpler and faster, and steps should be taken to improve the accuracy and consistency of decisions with the Social Security Act and SSA regulations, policies, and guidance. Doing so would benefit both applicants and the system itself by increasing program integrity in ways other than fraud detection and prevention.

### **Supporting Work**

#### *Emphasize early intervention to help people stay at their current job or find a new job quickly before entering the program*

Among the most promising ways to promote employment among current and prospective disability beneficiaries is to promote attachment to employment in the first place. Integrating work supports into the program from the beginning of a person's experience with disability can maintain employment momentum and lessen problems with returning to work that may arise later.

#### *Simplify the administration of SSDI and Supplemental Security Income (SSI) in ways that will more closely align work incentives*

Proposals to improve integration between Social Security disability benefits and work incentives include:

- Establishing a special office to implement DI work-incentive programs and pilots;
- Routinely informing beneficiaries about work-incentive and support programs;
- Improving interagency coordination on workforce attachment;
- Providing workforce-transition support to beneficiaries whose benefits are terminated due to medical improvement; and
- Guaranteeing timely Continuing Disability Reviews.

*Remove employment disincentives for those individuals who want to work*

To encourage employment among Social Security disability beneficiaries, one proposal is to replace the all-or-nothing earnings limit (the level at which beneficiaries lose all benefits if they earn any more money at all) with a gradual reduction in benefits in proportion to additional earnings. This could reduce the disincentives to seek higher wages and reenter the workforce. The 2015 law directed SSA to conduct demonstration projects to test these approaches.<sup>17</sup>

## Conclusion

Social Security disability is an essential protection for America's workforce. It helps sustain workers and their families when a worker's wages are lost due to disability. The system keeps millions of Americans out of poverty who would otherwise have no ability to earn income. By providing insurance against future risk of disability, it also provides peace of mind to the tens of millions of workers who are contributing to the system. Action is needed by 2023 to ensure its continued ability to provide this insurance protection and to deliver timely assistance to disabled workers. Modest reforms to the system guided by the principles outlined here would improve the ability of the system to achieve its objectives and extend solvency over the long term.



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<sup>17</sup> Bipartisan Budget Act of 2015, P.L. 114-74.