Social Security's support for people with disabilities faces challenges, economist says

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Stanford economist Mark Duggan suggests that the Social Security Disability Insurance program could benefit from new reforms. His research shows that inconsistencies exist in how the program determines if a person is sufficiently disabled to qualify for benefits.

Changes to the Social Security Disability Insurance program might include expanding incentives for people to work rather than rely on benefits, a Stanford economist says.

Mark Duggan, the incoming director of the Stanford Institute for Economic Policy Research, studies the effects of programs such as Social Security, Medicare and Medicaid on the behavior of individuals and firms. In February, he testified before the U.S. Senate Budget Committee about the Social Security Disability Insurance program.

The 60-year-old trust fund is facing a funding shortfall unless Congress and the White House agree on new funding and possibly reforms. The program provides monthly benefits to disabled-worker beneficiaries and their spouses and children.

The Stanford News Service recently interviewed Duggan on this issue:

What is the situation today with the Social Security disability trust fund?

The program pays benefits to about 11 million individuals in the U.S. The vast majority (9 million) of recipients previously worked but were found to be unable to engage in substantial gainful activity. Benefits are financed mainly by a 1.8 percent payroll tax and also by using interest from the program's trust fund. This trust fund peaked at $216 billion in 2008 but has declined steadily in the years since, with just $60 billion in assets at the end of 2014.

Program expenditures exceeded payroll tax revenues by 26 percent last year ($145 billion to $115 billion.) The most recent projections suggest that the trust fund will reach zero in late 2016 or early 2017. Without any change, SSDI benefits would be cut significantly given the exhaustion of the program's trust fund.

What are some of the problems?

There is certainly evidence of fraud in the program. For example, last year in New York, the SSA's Office of Inspector General testified about a scheme involving four facilitators who assisted more than 100 individuals in filing fraudulent applications. But some fraud is inevitable with a program as large as this one.

A bigger issue has been the variation across medical examiners and administrative law judges in their decisions about whether a person is sufficiently disabled to qualify for SSDI benefits. Research has uncovered substantial variation in award rates across examiners (who consider the initial applications) and across judges (who consider appeals.) It is difficult to eliminate this variation given the complexity of evaluating an individual's health – though improving the consistency of these decisions could increase the efficiency of the program.

Consider: More than half of applicants who applied to the program in 2008 who were denied benefits appealed this decision – and 60 percent of them eventually received awards. Because of this, almost 40 percent of SSDI awards (among 2008 applicants) were made on appeal. The lag in decision time from the initial application to the final decision is harmful for applicants – if they are initially denied, then their labor market opportunities may have deteriorated further.

What are your most significant research findings?

One important contribution has been to show that economic factors are an important driver of SSDI applications and enrollment. A second was to show that an expansion of the program's medical eligibility criteria has further increased enrollment and reduced the nation's labor force participation rate.

The rise in wage inequality in the U.S. – coupled with the progressive benefit formula used by the Social Security Administration – has increased the "replacement rate" (the ratio of potential benefits to potential earnings) for low-wage workers. Relatedly, SSDI applications surge when economic conditions deteriorate.

And as Social Security's retired worker benefits have become somewhat less generous, it has increased the financial incentive for workers to apply for disability benefits rather than waiting to claim retirement benefits from Social Security. All three factors have increased the incentive to apply for benefits and served to double enrollment – from 2.4 percent of those aged 25-64 in the late 1980s to about 5 percent today.

Finally, there was a very large increase in the award rates for more subjective conditions such as back pain and mental disorders, while awards for more objective conditions such as cancer and heart conditions have been stable. These changes were driven by a liberalization of the program's medical eligibility criteria in the mid-1980s.

Overall, the enrollment increase has partially been driven by the aging of the baby boom generation, as enrollment rates are higher for older workers due to a greater prevalence of disabilities. And, as more women entered the workforce in recent decades, the fraction eligible for the program has grown as well (a person must have worked in at least five of 10 most recent years to be considered for benefits).

But even controlling for these factors, there has been a very large increase in enrollment. Enrollment among men in their 50s increased from about 6 percent to 9 percent from 1989 to 2013. Even more striking, the fraction of women in this same age range on SSDI has risen from 3 percent to 8 percent.

These increases take on additional significance due to our nation's labor force participation rate decline. The most recent update to our labor force participation rate – at 62.6 percent – is the lowest that it's been since 1977.

Any recommendations for reform?

Any reform must balance the protection that the program provides to individuals with disabilities against the distortions that it introduces in the incentive to work. One relatively easy change, which the Social Security Administration is already pursuing, would be to increase the frequency of continuing disability reviews with a focus on SSDI recipients whose condition is expected to improve. This means checking in on workers somewhat more frequently in case they can return to work.

Another would be to increase the financial incentive for those already on the program to return to the workforce. Many recipients may remain out of the workforce for fear of losing their benefits despite having an interest in working. But perhaps the most important one would be to intervene sooner with individuals at risk of applying for the program.

My collaborator David Autor (an MIT economics professor) and I proposed in 2010 to revise the program from its current "one-size-fits-all" approach to one that would give employers a bigger role along with a stronger financial incentive to accommodate and assist workers if their health changes through contracting with private disability insurers.

Lessons from successful welfare reform at the state level during the 1990s could provide further guidance on how to encourage work among current and potential recipients.

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