

## TIME-LIMITING FEDERAL DISABILITY BENEFITS

Some policymakers have suggested putting time limits on federal disability benefits. Under such a proposal, new recipients not classified as "medical improvement not expected"—about one-half of all recipients—would have their benefits expire after three years. At that time, those recipients could reapply for benefits. The presumption, however, would be that those recipients were no longer disabled unless they could prove that their condition still limited their ability to work.

Under current law, continuing disability reviews are supposed to weed out recipients who no longer qualify for benefits, but most recipients have never undergone a CDR because resources for such reviews are limited. Without a termination arising from a CDR, Disability Insurance benefits continue until age 65, when recipients are automatically converted to Social Security retirement benefits. Disability benefits under the Supplemental Security Income program continue until a recipient dies or becomes financially ineligible.

The Social Security Administration's ability to conduct CDRs in the future could be significantly enhanced. The Contract with America Advancement Act of 1996 authorized appropriations of more than \$4 billion to the SSA for conducting CDRs during the 1996-2002 period. The authorizing legislation allows the budget caps that limit discretionary spending to be automatically increased if funding for CDRs is increased. Therefore, higher spending on CDRs would not necessitate cuts in other programs to keep discretionary spending within the caps. (At present, discretionary caps are only in effect through 1998, but they could be extended.) Also, since CDRs have typically reduced payments by more than they cost to conduct, increased funding would not be expected to raise the deficit in the long run.<sup>28</sup> Thus, that legislation removes a barrier to increased funding for CDRs. In fact, additional funding was appropriated for fiscal years 1996 and 1997 at the authorized level. The SSA projects that if CDRs were funded at the levels authorized in the act, the current backlog of CDRs in the DI program would be reduced from its present level of about 1.4 million to about 300,000 in 1999, after which it would be eliminated.

Although the SSA is empowered to conduct CDRs for SSI recipients, it is required to review only a small portion of its total caseload of more than 5 million

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28. The savings from CDRs cannot be used to offset spending when it comes to staying within the discretionary caps, because the savings are from reduced payments, and payments are direct spending, not discretionary. Furthermore, the cost is immediate whereas the savings are stretched out over a number of years.



people.<sup>29</sup> Given the backlog in CDRs in the DI program, the SSA has done relatively few with the SSI caseload. Increased funding authorized by the act would allow the SSA to conduct more CDRs on recipients of SSI disability benefits but would not be sufficient to handle the entire backlog.

A key difference between CDRs and placing a time limit on benefits is the presumption about the expectation of receiving benefits. The present system, with CDRs, allows people to continue to receive benefits unless the SSA shows that their medical condition has improved and they are now capable of substantial gainful activity. In contrast, a system in which benefits will automatically cease after three years requires recipients to prove they are still entitled to benefits.

### Illustrative Budgetary Effects of Time-Limiting Disability Benefits

Given that legislation passed by the 104th Congress established time limits for certain recipients of family assistance and food stamps, policymakers might also consider placing similar types of restrictions on federal disability programs. Time limits for certain people receiving food stamps were established for adults between the ages of 18 and 50. Therefore, one illustrative policy option would be to place time limits on people of the same age receiving disability benefits.

The Congressional Budget Office (CBO) estimates that a policy of time-limiting disability benefits for new recipients between the ages of 18 and 50 starting in 1998 would save about \$1.6 billion during the 2001-2006 period (see Table 8). The policy option this estimate is based on would require certain recipients to reapply for benefits after three years. The option would apply to all recipients ages 18 to 50 who were first awarded benefits after December 31, 1997, and were not classified as "medical improvement not expected." If they did not reapply, or if their applications were not approved, benefits would cease. Slightly over half of the savings would come from reduced cash benefits, predominantly in the DI program. Just under half of the savings would come from reduced payments in the Medicare and Medicaid programs. As mentioned earlier, some people receive Medicare or Medicaid benefits solely because of their eligibility for federal disability benefits.

Setting the cutoff at age 50 addresses a chief concern of policymakers—the fact that some younger beneficiaries spend most of their working-age years on the rolls. Time-limiting benefits for recipients nearer retirement age has much less potential for increasing the long-term work behavior of recipients. Moreover,

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29. The SSA is required to conduct 100,000 CDRs a year from 1996 to 1998 and to review one-third of all recipients turning 18. Welfare reform measures passed in the 104th Congress added further requirements for reviewing children.



TABLE 8. ILLUSTRATIVE BUDGETARY AND CASELOAD EFFECTS OF AN OPTION THAT PLACES A TIME LIMIT ON BENEFITS FOR ADULTS AGES 18 TO 50

	2001	2002	2003	2004	2005	2006	Total 2001-2006
<b>Budgetary Effects (By fiscal year in billions of dollars)</b>							
Disability Insurance	a	a	-0.1	-0.1	-0.2	-0.2	-0.6
Supplemental Security Income	a	a	a	a	-0.1	-0.1	-0.2
Medicare	a	a	-0.1	-0.1	-0.1	-0.2	-0.5
Medicaid	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>-0.1</u>	<u>-0.1</u>	<u>-0.2</u>
<b>Total</b>	a	-0.1	-0.2	-0.3	-0.4	-0.6	-1.6
<b>Caseload Effects (By fiscal year average, in thousands of people)</b>							
Disability Insurance	-1	-4	-7	-10	-14	-18	-54
Supplemental Security Income	-1	-3	-6	-8	-10	-13	-41

SOURCE: Congressional Budget Office.

NOTE: The option would apply to all recipients of Disability Insurance and Supplemental Security Income ages 18 to 50 who were first awarded benefits after December 31, 1997, and were not classified as "medical improvement not expected." Those recipients would have to reapply for benefits every three years.

a. Less than \$50 million.



because people over 50 receive benefits for fewer years than young recipients and are less likely to have a condition for which medical improvements are expected, raising the cutoff to, say, 55 would not greatly add to the potential savings.

CBO made several key assumptions in estimating the savings. The first assumption was that the SSA would conduct an aggressive schedule of CDRs in accordance with the maximum cap adjustments contained in the Contract with America Advancement Act; that is, the estimate assumes that beneficiaries not classified as "medical improvement not expected" would undergo a CDR every three years. The \$1.6 billion in savings was measured against the expected policy of administering CDRs, not against past practice. Otherwise, the savings would have been higher.

CBO also assumed that 7 percent of people who reapplied would be denied. That rate is 1 percentage point higher than the assumption used for CDRs (based on termination rates from past CDRs), because the SSA must document "medical improvement" for a CDR termination. Meeting the "medical improvement" standard would not be necessary with a reapplication under a policy of time-limiting benefits.

Finally, CBO assumed the option would not affect initial applications but that the rate of reapplication would decline very slightly. If the policy of time-limiting benefits reduced the number of applications, the savings would be higher. Any such reduction, however, would probably not be observed for at least several years, until potential applicants could assess the effects of the time limit on the first cohorts subject to the new rules.

#### Advantages of Time-Limiting Benefits

Establishing a time limit for benefits would encourage work by creating a financial incentive (since the value of expected benefits would decrease). It might also alter recipients' attitudes about their ability to work by sending the signal that their condition is not perceived as permanently preventing them from working. Staying up to date with CDRs would serve the same purpose as time-limiting benefits, although a time limit would probably be more effective in lowering program costs. Time-limiting the DI program, however, would have less of an impact if CDRs were conducted on schedule. Still, some differences exist between using a time limit and staying up to date with CDRs.

A Larger Financial Incentive to Work. If having to reapply for benefits and having to undergo a CDR both lower recipients' chances of continuing to receive benefits, time-limiting benefits would be expected to have a similar impact on work behavior as fully funding CDRs. A CDR results in a termination only if the SSA can



demonstrate that a recipient's medical condition has improved. Since reapplications, unlike CDRs, are not subject to the medical improvement rule, time-limiting benefits might have a slightly larger impact on program costs. Even without a medical improvement, a reapplication could be denied if the SSA felt the applicant was capable of sustained work.

Placing a time limit on benefits lowers the expected value of the income stream that those benefits can generate. As shown earlier, lowering the expected value of benefits increases participation in the labor force.

The expected value of benefits that people age 35 would have received by the time they were 50 (when they would no longer be subject to the time limits under this option) would be about 13 percent less under a time-limited system compared with the present system without CDRs. A policy of aggressively conducting all CDRs would reduce the expected value of the benefit by 11 percent.

With a three-year time limit, people age 35 would be guaranteed only three years of disability benefits and would then have to reapply. If they never faced a CDR or reapplication requirement, they would expect an uninterrupted stream of disability benefits over the next 15 years, at which point the time-limited aspect of benefits would no longer apply. As stated earlier, the estimate assumes that about 7 percent of reapplications would be denied, so 7 percent of people still receiving benefits after each three-year period would have their benefits terminated.<sup>30</sup> That chance of losing benefits reduces the expected value of benefits over the next 15 years for a 35-year-old who survives to age 50 by as much as 13 percent. A policy of conducting all CDRs would result in a reduction in expected benefits of 11 percent over the same period.<sup>31</sup>

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30. Actually, although the average termination rate is expected to be 7 percent, it might be higher than that at the first reapplication and then decrease with each successive three-year period because the people with the most likely chance of recovering will leave the program first. Nevertheless, for simplicity's sake, this example uses a constant 7 percent termination rate as does the savings estimate.

31. During the first three years, recipients would receive 20 percent of the maximum nominal benefits they could receive over the 15-year period until they are 50 years of age. At that point, they have a 7 percent chance of losing their benefits. If they do not lose them, they have a 7 percent chance of losing them three years later, and so on. The expected value of their benefits over the 15-year period is  $\{.20+.93(.20+.93(.20+.93(.20+.93(.20))))\}=87$  percent of the benefits that could be received with no time limits and no chance of receiving a CDR. That amounts to a 13 percent reduction in expected benefits. Using .94, instead of .93, yields the 11 percent reduction associated with a 6 percent termination rate from CDRs.

These calculations are extremely rough. They do not take into account what happens after age 50, nor do they account for inflation, changing benefit levels, or the chance that someone removed from the rolls reapplies successfully at a later date. Furthermore, they do not consider that reapplying successfully after one three-year period may be correlated with the chance after subsequent three-year periods.



These estimates serve as an upper bound on program savings since some recipients die before age 50 and many could return to the rolls even after being dropped from the program. In fact, 63 percent of people terminated from DI through the CDR process between 1981 and 1984 were back on DI in 1987. Close to 30 percent of those allowed benefits in 1984 had died by 1987, although many of those people were over 50.

The research cited earlier suggests that this level of reduction in disability benefits generally would increase labor force participation by at most 1 percent to 2 percent. The difference between the effect of this illustrative policy of time-limiting benefits on labor force participation and that of a policy of conducting all CDRs, however, would be small.

In addition, with either policy, some people would be terminated from the program. About 3 percent of new recipients in a given year would be removed from SSI three years later. Based on the results reported earlier, over 20 percent of them would return to work.

In the long run, time-limiting benefits could lower participation in disability programs by at most 3 percent and increase labor force participation of older adults by between 1 percent and 2 percent. The effects of conducting all required CDRs would be marginally smaller. Neither policy would completely counter the high rates of growth the program has experienced in recent years.<sup>32</sup>

Improved Self-Perception of Recipients' Ability to Work. As noted earlier, some people believe that the application process is demoralizing and that a very high likelihood of a permanent period of reciprocity sends a strong message to applicants. Applicants' self-esteem and their perceived ability to work may diminish. One effect of emphasizing that benefits are not automatically considered permanent could be to create the expectation that people with disabilities should take steps to reenter the workforce—indeed, that a reasonable chance of working again exists. Receiving such a message might change people's mind not only about returning to work but about their own self-worth. Advocates of time-limiting benefits believe that this policy sends a stronger signal than having all recipients undergo regularly scheduled CDRs.

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32. The reasons for the growth in DI and SSI include changes in criteria for mental disabilities, changes in the eligibility rules for children, growth in the number of women insured under DI, the aging of the population, longer lengths of reciprocity, and other factors. See Koitz, Kollman, and Neiser, *Status of the Disability Programs of the Social Security Administration, 1994*; and General Accounting Office, *Disability Rolls Keep Growing, While Explanations Remain Elusive*, Report to the Senate Committee on Finance and the House Committee on Ways and Means, GAO/HEHS-94-34 (February 1994).



## Disadvantages of Time-Limiting Benefits

The disadvantages of moving to time limits hinge on the added administrative work it would impose and on potential hardships for recipients. The total number of reviews processed would rise significantly in a system that is already overburdened. One result could be an increase in applicants who are incorrectly denied benefits. Conversely, limited resources in the disability determination system might increase the approval rate of borderline applications. Moreover, even when benefits were awarded, numerous appeals would probably be made about whether the benefits were permanent or time-limited, straining resources further.

Administrative Burden. Disability determination services are already swamped, and time-limiting benefits would add to that problem considerably. Administrators of those services report serious staff shortages and insufficient funding in key operational areas. In fact, many disability determination services claim that they are unable to perform other tasks, such as training and supervisory activities, because staff must be reassigned in order to keep up with the quantity of applications.

This administrative burden may already be affecting the accuracy of workers in state disability determination services who determine which applicants should receive benefits.<sup>33</sup> A majority of administrators of those services expressed concerns about that, although a three-year slide in the accuracy of denials was reversed in 1992. A sharp increase in the number of claims handled, however, could cause additional problems. Limited resources might prompt the services to approve borderline cases. Another factor that could add to this tendency would be an increased number of decisions being appealed. More would be at stake in determining the severity of the applicant's disability since benefits to an applicant designated "medical improvement not expected" would not be subject to time limits.

Of course, sifting through a large volume of reapplications from time-limited beneficiaries would not be fundamentally costlier for the SSA than conducting CDRs on the same beneficiaries. And the Congress—by enacting a cap adjustment for CDRs—has expressed a willingness to set aside a guaranteed source of funding in the future. That decision, though, will have to be ratified every year as part of the debate over appropriations. If the SSA's resources do not keep up with the demands,

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33. Statement of Jane L. Ross, Director, Income Security Issues, Division of Health, Education, and Human Services, General Accounting Office, before the Subcommittee on Social Security, House Committee on Ways and Means, published as General Accounting Office, *Social Security Disability: Management Action and Program Redesign Needed to Address Long-Standing Problems*, GAO/T-HEHS-95-233 (August 3, 1995); and General Accounting Office, *Social Security: Increasing Number of Disability Claims and Deteriorating Service*, Report to the Chairman, Senate Committee on Finance, GAO/HRD-94-11 (November 1993). The SSA is redesigning its system in order to confront those issues.



some possible consequences include even longer processing times, pressure to simply rubber-stamp applications or reapplications, and higher rates of error. The rate of appeals, however, would probably be lower than under a time-limited system because applicants would have less reason to contest not being labeled "medical improvement not expected."

Inaccurate Denials Have High Costs for People Losing Coverage. Over 7 percent of people denied DI benefits are deemed to have been mistakenly denied.<sup>34</sup> If time limits were introduced in both federal disability programs, the number of people mistakenly denied benefits would probably increase since more recipients would have to repeat the application process. If the extra administrative workload caused problems, the percentage of applicants who were wrongly denied could also increase, although as stated above, that same percentage could be wrongly awarded instead.

The number of inaccurate denials would be relatively small, but the people who were wrongly denied would generally end up in poverty. In 1993, over 1,200 of the nearly 50,000 undergoing a CDR were dropped from the program and did not return to work. Applying that rate to the projected number of applications under a scenario with a time limit on benefits yields the conclusion that requiring all recipients currently classified as not permanently disabled to reapply would probably have led to almost 8,000 people being dropped from the DI program and not subsequently returning to work in 1996. The number of inaccurate denials would be some percentage of those people. The number of inaccurate denials in the SSI program would probably be of a similar magnitude.

People who were mistakenly denied, however, would be put in a very vulnerable position. Disabled and incapable of working, they would have a very low standard of living. As shown earlier, about 60 percent of them would be living in poverty, and about one-fourth would have no health insurance.

Potential for Gaps in Coverage. Even people who would be readmitted to a disability program might face gaps in coverage if provisions were not made to continue benefits during the reapplication process. In 1995, the average length of wait for people who were accepted to federal disability programs by the disability determination service without having to appeal was about 100 days from filing. For the more than 17 percent who were originally denied benefits but then subsequently obtained them through appeal, that wait was extended by an additional 265 days on average. Whether reapplications would take a similar amount of time is unclear.

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34. See General Accounting Office, *Social Security*.



As discussed above, many recipients are poor, and many have no access to health insurance. A gap in coverage of even a few months could impose a significant hardship, especially for people who rely on medication or other forms of health care. Even if awarded, retroactive benefits might not fully alleviate the problems those beneficiaries could face.

Continuing benefits during the application procedure could, however, create overpayments to some recipients if they were subsequently denied benefits. With time-limited benefits, any payments received after the time limit, but before the reapplication procedure was completed, might have to be returned. The SSA does not have a good track record of recovering overpayments when there is no benefit check from which to withhold money.

### Increased Continuing Disability Reviews as Another Option

Expanding the use of CDRs, as the Congress has recently encouraged, is an alternative to time-limiting benefits. The SSA is planning more CDRs, but not enough to deal with the entire caseload. Expanding CDRs further, or at least in some way ensuring a continued aggressive approach to conducting CDRs, has some advantages over time-limiting benefits.

One advantage to increasing the number of CDRs over time-limiting benefits is that it eliminates the problem of potential gaps in coverage. Furthermore, if CDRs were targeted, the number of full-fledged medical reviews could be smaller than the number of new applications that would result from establishing time limits. Recent attempts at targeting CDRs have been successful and may expand now that more funding might be available.<sup>35</sup>

This approach has some drawbacks, however. The message about the expectation of recovery is weaker. Furthermore, during a financial or administrative crunch, it might be easy simply to reduce the number of CDRs. In the past, CDRs have been required, but a substantial backlog was able to develop because of insufficient funding. No guarantee exists that adequate funding will continue. Under a strategy of time-limiting benefits, recipients' benefits would definitely end unless they reapplied. SSA would be under much more pressure to process the new applications; if it did not, many eligible people would not receive benefits.

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35. Statement of Jane L. Ross, Associate Director, Division of Health, Education, and Human Services, General Accounting Office, before the Subcommittee on Social Security, House Committee on Ways and Means, published as General Accounting Office, *Continuing Disability Review Process Improved, But More Targeted Reviews Needed*, GAO/T-HEHS-94-121 (March 10, 1994).



In the end, either strategy—time-limiting benefits or increasing CDRs in both DI and SSI—would be expected to decrease the caseloads and expenditures in federal disability programs. Both options would also encourage work. Nevertheless, neither strategy would reverse the substantial growth both programs have experienced in recent years.

