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Testimony

The Social Security Disability Insurance Program

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Note

Unless otherwise indicated, Social Security enrollment data are presented for calendar years and budget data are presented for federal fiscal years, which run from October 1 to September 30.

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Chairman Johnson, Ranking Member Becerra, and Members of the Subcommittee, thank you for inviting me to testify on the Social Security Disability Insurance (DI) program. My statement, based on a report that the Congressional Budget Office (CBO) released last July, examines the reasons that the program has experienced rapid growth in its costs and number of beneficiaries and presents a variety of options for changing the program.[1]

How the Disability Insurance Program Works

The DI program is one component of the federal Social Security system, which comprises the Old-Age, Survivors, and Disability Insurance (OASDI) programs. The DI program provides income to nonelderly adults who have worked in the past but whom the Social Security Administration (SSA) now deems unable to work because of a medical condition that is expected to last more than one year or to result in death. Only workers who are younger than the full retirement age—established for the Old-Age component of Social Security—can be eligible for DI benefits.[2] Disabled beneficiaries receive monthly payments based on their past earnings for as long as they remain in the program.[3] Some family members of disabled beneficiaries, including certain spouses and children, are also eligible for benefits. If DI beneficiaries remain disabled and live to their full retirement age, they transfer to the Social Security retirement program at that age, but their benefits do not change.[4]

DI benefits are paid from the Disability Insurance Trust Fund. That fund is financed primarily by the Social Security payroll tax, which is paid in equal amounts by employers and employees.[5] (Self-employed workers pay the entire tax.) The total Social Security payroll tax is 12.4 percent and is applied to earnings up to a maximum amount that generally increases over time with average earnings nationwide. The DI program's share of that tax is 1.8 percentage points; in other words, the DI tax rate today is 1.8 percent—employers and employees each pay a rate of 0.9 percent.

In January 2013, the DI program provided benefits to 10.9 million people. More than 80 percent of them, or 8.8 million people, were disabled worker beneficiaries; about 17 percent, or 1.9 million, were children of those workers; and fewer than 2 percent, or 160,000, were spouses of those workers. See Box 1 for basic facts about the program.

The DI program's rules generally restrict beneficiaries from working and earning substantial amounts while they are receiving benefits. However, when beneficiaries first return to work, they can earn an unlimited amount for 12 months without losing their benefits. (Specifically, a beneficiary may enter a "trial work period" during which he or she may work for nine months and remain in the program; a three-month grace period follows the trial work period.) Thereafter, they can earn no more than some specified amount per year ($12,480 in 2013) before their benefits are eliminated.[6]

1. Congressional Budget Office, *Policy Options for the Social Security Disability Insurance Program* (July 2012), www.cbo.gov/publication/43421. Relative to that report, this testimony includes updated figures for 2012 and updated projections under current law for 2013 through 2023; however, the estimated budgetary effects of the policy options have not been updated. For more information from CBO on the DI program, see *Social Security Disability Insurance: Participation Trends and Their Fiscal Implications* (July 2010), www.cbo.gov/publication/21638; and "DI: The Social Security Disability Insurance Program" (infographic, July 2012), www.cbo.gov/publication/43432.

2. The full retirement age is the age at which a person becomes eligible for unreduced Social Security retirement benefits. For details on DI eligibility, see Social Security Administration, *Disability Evaluation Under Social Security* (Blue Book), SSA Pub. 64-039 (September 2008), www.ssa.gov/disability/professionals/bluebook/listing-impairments.htm.

3. In this testimony, the term "disabled beneficiaries" refers to people with disabilities who are receiving benefits from the DI program as a result of their own disability and whose DI benefits are calculated on the basis of their own work history. (Such beneficiaries are also referred to as disabled worker beneficiaries, disabled workers, or disabled insured beneficiaries.)

4. For more detailed descriptions of the DI program, see Congressional Budget Office, *Social Security Disability Insurance: Participation Trends and Their Fiscal Implications* (July 2010), www.cbo.gov/publication/21638; and Social Security Administration, *Disability Benefits,* SSA Pub. 05-10029 (July 2012), www.ssa.gov/pubs/10029.html.

5. In addition to payroll tax receipts, a portion of the income taxes paid on Social Security retirement benefits is credited to the DI trust fund. The government maintains a separate trust fund for the Old-Age and Survivors Insurance program.

6. Blind beneficiaries in 2013 can earn up to $20,880 per year. For more information, see Social Security Administration, "Trial Work Period" (October 2012), www.ssa.gov/oact/COLA/twp.html.

Box 1.

Basic Facts About the Social Security Disability Insurance Program

Beneficiaries

- 8.8 million disabled workers (in January 2013)
- 1.9 million children of disabled workers
- 0.2 million spouses of disabled workers
- 50 percent of Disability Insurance (DI) beneficiaries had household income below the federal poverty threshold in 2006 (the most recent year for which data are available)

Trends in Participation

- Number of disabled worker beneficiaries: 1.5 million in 1970 to 8.8 million in 2012
- All disabled worker beneficiaries as a share of working-age adults (people ages 20 to 64): 1.3 percent in 1970 to 4.6 percent in 2012
- Female disabled worker beneficiaries as a share of working-age adults: 0.4 percent in 1970 to 2.1 percent in 2012

Spending on DI Benefits and Medicare

- DI benefits in fiscal year 2012: $135 billion
- Spending on Medicare benefits for DI beneficiaries (generally after a 24-month waiting period) in 2012: $80 billion
- Average monthly DI benefit for a disabled worker: $1,130 (in January 2013)
- DI benefits as a share of gross domestic product: 0.3 percent in 1970 to 0.9 percent in 2012
- DI benefits as a share of total Social Security benefits: 10 percent in 1970 to 18 percent in 2012

Revenues for the DI Program

- DI tax revenues in 2012: $102 billion
- Mostly from the 1.8 percent payroll tax on earnings up to the taxable maximum ($113,700 in 2013)

Projected Exhaustion Date of the DI Trust Fund: 2016

- The Social Security Administration has no legal authority to pay full benefits on time after exhaustion occurs
- In the past, legislation redirected some revenues from the Old-Age and Survivors Insurance fund to the DI fund

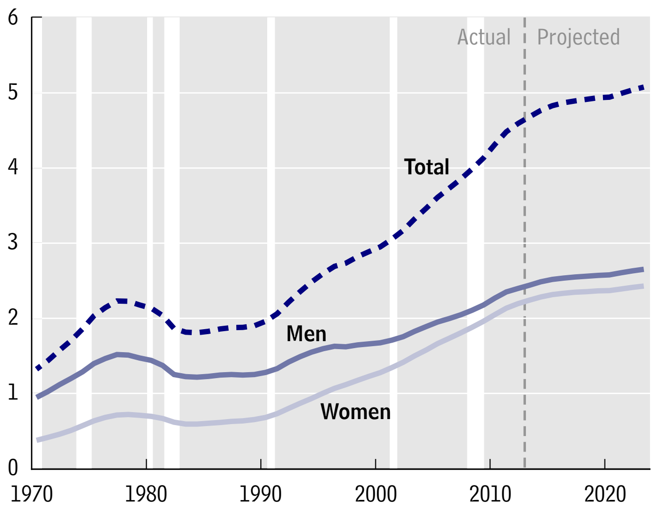
Reasons for Growth in the DI Program

- Demographics: an aging population with more workers with disabilities
- More women in the workforce who are potentially eligible for DI
- Changes in federal policy
  - Legislation in 1984 led to a larger number of DI beneficiaries with musculoskeletal or mental impairments, many entering the rolls at younger ages and staying in the program longer than the average beneficiary
  - Rise in the full retirement age for Social Security
- Changes in opportunities for employment and compensation
  - Poor employment opportunities for less skilled workers, especially during economic downturns
  - Rising income inequality combined with the DI benefit formula, which indexes benefits to the national average wage

Figure 1.

Social Security Disability Insurance Beneficiaries as a Share of the Working-Age Population

(Percent)



Sources: Congressional Budget Office; Social Security Administration.

Notes: White bars indicate recessions.

The working-age population consists of people ages 20 to 64.

The average monthly benefit for a disabled beneficiary in January 2013 was $1,130; at that benefit level, the average DI beneficiary this year may have an annual income of no more than $26,040 from DI benefits and earnings combined. (For purposes of comparison, the average income per person for the nation as a whole, according to the Census Bureau, was about $27,600 in 2011.) In 2006, the most recent year for which data are available, 50 percent of DI beneficiaries had household income that was below the federal poverty threshold—a proportion about five times higher than the national poverty rate of 10 percent at that time.[7]

Trends in the Number of Beneficiaries

In the past four decades, the number of workers with disabilities who receive benefits from the DI program has increased nearly sixfold, rising from 1.5 million in 1970 to 8.8 million in 2012. (Dependents of disabled beneficiaries are not included in that calculation.) In 1970, DI beneficiaries were about 1.3 percent of working-age adults—individuals ages 20 to 64; in 2012, that proportion was 4.6 percent. Much of the recent growth in the share of the population that comprises disabled beneficiaries stems from increases in the number of women receiving disabled worker benefits. Between 1970 and 1995, the share of women who received such benefits grew by about 0.6 percentage points—about the same rate of growth as for men. Between 1995 and 2012, however, women receiving disabled worker benefits increased from 1.0 percent to 2.1 percent of all working-age adults; the corresponding change for men was from 1.6 percent to 2.4 percent.

Over the next decade, DI beneficiaries as a share of working-age people will grow but at a considerably slower rate than during the past 40 years, CBO projects. In CBO's estimation, the share of DI beneficiaries will rise to 5.0 percent in 2023, with about equal relative increases in the proportion among men and among women (see Figure 1).

Trends in the Program's Costs

The rapid growth in the DI program's rolls has put increasing pressure on its finances. Between fiscal years 1970 and 2012, DI expenditures on benefits (adjusted for inflation) rose more than ninefold. As a result, a growing share of spending for the Social Security system is being directed to participants in the DI program. In 1970, DI spending was about 10 percent of OASDI expenditures; by 2012, that share had grown to nearly 18 percent. CBO estimates that by 2023, as the number of beneficiaries in the Social Security retirement program swells, the DI program's share of OASDI spending will recede to about 15 percent.

7. Because the poverty rate among DI beneficiaries is measured at the household level and the national poverty rate is measured at the family level, the two statistics are not strictly comparable. The household poverty rate among DI beneficiaries comes from Table 9 in Gina Livermore and others, *Work Activity and Use of Employment Supports Under the Original Ticket to Work Regulations—2006 National Beneficiary Survey: Methodology and Descriptive Statistics* (Mathematica Policy Research, Center for Studying Disability Policy, October 2009), www.mathematica-mpr.com/publications/PDFs/disability/TTW_2006_NBS.pdf. The national poverty rate is calculated for all families by the Census Bureau; see Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2006*, Current Population Reports, P60-233 (August 2007), www.census.gov/prod/2007pubs/p60-233.pdf.

Total DI expenditures were $135 billion in 2012 and, CBO projects, will be $213 billion in 2023. Measured relative to the size of the economy, DI spending was 0.27 percent of the nation's gross domestic product in 1970; by 2012, that share had more than tripled, to 0.87 percent. CBO expects that proportion to increase slightly, to 0.89 percent in 2014, before declining to 0.82 percent in 2023. In contrast, dedicated DI tax revenues were 0.65 percent of GDP in 2012 and, CBO projects, will be 0.66 percent of GDP in 2023.[8]

Total government spending on DI beneficiaries is substantially higher than DI expenditures alone. In particular, disabled beneficiaries receive coverage under Medicare, regardless of their age, generally after a 24-month waiting period. The cost of Medicare benefits received by DI beneficiaries was about $80 billion in 2012; CBO expects that it will be $130 billion in 2023. Moreover, some DI beneficiaries also receive benefits from the Medicaid and Supplemental Security Income (SSI) programs.

The DI program's rapid expansion and the projected gap between its spending and dedicated revenues in the future raise questions about the financial sustainability of the program. Since 2009, the program has been paying out more in annual benefits than it receives in taxes and in interest on the balances in its trust fund.[9] CBO projects that the DI trust fund will be exhausted in 2016, nearly 20 years before the projected exhaustion of the trust fund for the Social Security retirement program.[10] If a trust fund's balance falls to zero and current revenues are insufficient to cover the benefits that are specified in law and administrative expenses, SSA has no legal authority to pay full benefits when they are due.

In 1994, legislation redirected revenues from the Old-Age and Survivors Insurance (OASI) trust fund to prevent the imminent exhaustion of the DI trust fund. In part because of that experience, it is a common analytical convention to consider the DI and OASI trust funds as combined. Thus, if some future legislation shifted resources from the OASI trust fund—which CBO projects will be exhausted in 2038—to the DI trust fund, the combined OASDI trust funds would be exhausted in 2034, according to a long-term projection that CBO published in June 2012.[11] Such a policy would allow scheduled DI benefits to be paid for a longer period, but it would not address Social Security's underlying financial imbalance.

Reasons the Program Has Grown So Rapidly

Multiple factors help explain the DI program's rapid growth, and CBO has grouped them in three categories:

- Changes in demographics and growth of the labor force,
- Changes in federal policy, and
- Changes in opportunities for employment and compensation.

Changes in Demographics and Growth of the Labor Force

Part of the growth in the DI program reflects the aging of the large baby-boom generation (people born between 1946 and 1964) and, consequently, the aging of the workforce. Older workers are far more likely than younger workers to qualify for DI benefits: More older people suffer from debilitating conditions. Moreover, the program's qualification standards for older workers are less strict than those for younger workers because older people are assumed to be less able to adapt to new types of work. Thus, the baby boomers' aging would have

8. Lawmakers reduced the workers' portion of the OASDI payroll tax by 2 percentage points for calendar years 2011 and 2012; the DI portion of that tax dropped to 1.5 percent from 1.8 percent. The reduction in tax revenues was made up for by reimbursements from the U.S. Treasury's general fund to the two Social Security trust funds. For the purposes of the calculations in this testimony, Social Security payroll tax revenues are considered to include those reimbursements.

9. Federal trust funds, including those for Social Security, essentially constitute an accounting mechanism for tracking the relationship between a program's spending and the revenues that are dedicated to that program. In a given year, the sum of a fund's receipts along with the interest that is credited on previous balances, minus spending for benefits and administrative costs, equals a trust fund's surplus or deficit.

10. Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985 (section 257(b)), CBO's baseline projections incorporate the assumption that DI benefits will be paid in full even after the trust fund is exhausted.

11. See Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012), p. 69, www.cbo.gov/publication/43288.

boosted enrollment in the DI program even if no other factors had changed.[12]

Another reason for the DI program's growth is the increase in the labor force relative to the number of working-age people. That increase largely stems from a rise in the number of working women. The increased number of working women has boosted revenues for the DI program, through the payroll taxes collected on their earnings, but it has also led to more disabled beneficiaries and higher outlays for the program.

Changes in Federal Policy

In 1984, lawmakers enacted the Disability Benefits Reform Act, which expanded the ways in which people could qualify for the DI program. That legislation, in addition to reversing several of the cost-containment measures enacted as part of the 1980 Social Security Disability Amendments, shifted the criteria for DI eligibility from a list of specific impairments to a more general consideration of a person's medical condition and ability to work. The legislation allowed applicants to qualify for benefits on the basis of the combined effect of multiple medical conditions, each of which taken alone might not have met the criteria. It also allowed symptoms of mental illness and pain to be considered in assessing whether a person qualified for admission to the DI program, even in the absence of a clear-cut medical diagnosis.[13] The easing of the eligibility criteria increased the importance of subjective evaluations in determining whether applicants qualified for benefits.

Those changes in policy led to a substantial expansion in the share of DI beneficiaries with mental or musculoskeletal disorders, many of whom enter the program at younger ages than do people with other types of disabilities and many of whose applications are largely judged by subjective criteria.[14] The share of beneficiaries with musculoskeletal disorders increased from about 17 percent in calendar year 1986 (two years after the passage of the law) to more than 28 percent in 2010. The share of beneficiaries with mental disorders increased from about 22 percent in 1986 to about 33 percent in 2010. In addition to increasing the number of people who enter the DI program, those changes have helped boost the average length of time that disabled beneficiaries receive DI benefits because those disorders are comparatively more prevalent at younger ages and less likely than many other qualifying conditions to result in premature death.[15]

Another way in which federal policy has led to growth in the DI program is through the rise in the full retirement age for Social Security that has occurred during the past decade. That rise has had two main effects on the DI program: It has enlarged the potential pool of DI applicants by including more older workers who have not yet reached their full retirement age, and it has increased the length of time individuals spend receiving DI benefits because disabled worker beneficiaries now shift to the Social Security retirement program later than in previous years. (In addition, the rise in the full retirement age has

12. See Mark G. Duggan and Scott A. Imberman, "Why Are the Disability Rolls Skyrocketing? The Contribution of Population Characteristics, Economic Conditions, and Program Generosity," in David M. Cutler and David A. Wise, eds., *Health at Older Ages: The Causes and Consequences of Declining Disability Among the Elderly* (University of Chicago Press, 2009), pp. 337–379, www.nber.org/chapters/c11119. Those authors estimate that the aging of the population accounts for about one-fifth of the growth in the share of the working-age population enrolled in the DI program between 1984 and 2003.

13. See Tim Zayatz, *Social Security Disability Insurance Program Worker Experience*, Actuarial Study 114 (Social Security Administration, July 1999), www.ssa.gov/OACT/NOTES/AS114/as114Foreword.html; Frank S. Bloch, "Medical Proof, Social Policy, and Social Security's Medically Centered Definition of Disability," *Cornell Law Review*, vol. 92, no. 2 (2006–2007), p. 189, www.lawschool.cornell.edu/research/cornell-law-review/volume-92-number-2.cfm; and David H. Autor and Mark G. Duggan, "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding," *Journal of Economic Perspectives*, vol. 20, no. 3 (Summer 2006), pp. 71–96, www.aeaweb.org/articles.php?doi=10.1257/jep.20.3.71.

14. Musculoskeletal disorders include, for example, certain disorders of the spine and major dysfunctions of the joints, which affect people's ability to ambulate or to perform fine and gross movements effectively. Mental disorders include, for example, certain types of affective, psychotic, and anxiety-related disorders. See Social Security Administration, *Disability Evaluation Under Social Security* (Blue Book), "List of Impairments—Adult Listings (Part A)" (June 2011), www.ssa.gov/disability/professionals/bluebook/AdultListings.htm.

15. Researchers have found that mortality rates vary substantially by diagnosis and that DI recipients with mental disorders and musculoskeletal conditions have lower mortality rates than the average DI recipient. See Kalman Rupp and Charles G. Scott, "Trends in the Characteristics of DI and SSI Disability Awardees and Duration of Program Participation," *Social Security Bulletin,* vol. 59, no. 1 (January 1996), pp. 3–21, www.ssa.gov/policy/docs/ssb/v59n1/index.html.

boosted revenues for the DI program in the form of payroll taxes collected on the earnings of people who are now working longer before claiming retirement benefits.) Between 2002 and 2009, the age at which DI beneficiaries transferred to the retirement program rose from 65 to 66; it is scheduled to rise to age 67 between 2020 and 2027.

Changes in Opportunities for Employment and Compensation

Whether people apply for DI benefits is strongly affected by the design of the program, the opportunities people have for employment, and the difference between the DI benefits an individual would receive and the compensation (earnings and benefits) associated with working. Access to health insurance and the cost of obtaining it are additional factors that can affect an individual's decision to apply for DI benefits, particularly because disabled beneficiaries receive coverage under Medicare, generally after a 24-month waiting period.

When jobs are plentiful, some people who could qualify for the DI program may choose instead to work. Conversely, when jobs are scarce, such as in economic downturns, some people with disabilities may find that their employment opportunities are especially limited, and they will instead choose to apply for DI benefits. Indeed, in the aftermath of the recent severe recession, applications for DI benefits reached a historic high, exceeding 2.9 million in calendar year 2010.[16]

Short-term economic downturns can have long-term effects on the DI program's benefit rolls. Many people who have been out of work for long periods find it hard to reenter the labor force, especially at their previous wage level, and they may ultimately turn to the DI program for support. Once they have been awarded benefits, only a very small percentage of DI participants permanently leave the program to return to the workforce.[17] CBO projects that as a result of the most recent recession and slow recovery, the number of disabled worker beneficiaries will continue to rise over the next few years (although growth will slow as the economy improves). That increase in participation stemming from the severe economic downturn will add to the long-term trend of rising enrollment.

Over the past few decades as a whole, a combination of rising income inequality and the indexing rules for DI benefits has made those benefits larger relative to earnings for low-wage workers. Specifically, the DI benefit formula is based on a worker's previous earnings adjusted to reflect the general rise in the standard of living that occurred during his or her working years. Thus, to calculate benefits, a worker's nominal earnings in a given year are converted to near-current wage levels on the basis of changes in average annual earnings in the economy as a whole. (The calculations count earnings for the two years before the initial computation of benefits at their actual amounts and earnings for earlier years at the indexed amounts.) Because the wages paid to low-wage workers have increased more slowly than overall wages in the economy, this indexing formula yields DI benefits that, over time, have risen to be a greater share of the previous earnings of low-wage workers.[18]

Looking ahead, the Affordable Care Act is likely to influence application rates for the DI program, but whether it will result in more or fewer beneficiaries is difficult to predict.[19] Among other changes, that legislation will make it easier for people who have health problems to buy their own insurance; it will also provide new subsidies for individually purchased coverage and expand eligibility for Medicaid in states that choose to do so. On the one hand, people who do not have employment-based health insurance will find it easier to obtain subsidized coverage as well as to gain access to health care without applying for DI benefits. That change will tend to reduce applications to the DI program. On the other hand, some people who would lose employment-based health coverage if they left their jobs to apply for DI benefits will have access to

16. In 2011, the number of DI applications dropped slightly, to just under 2.9 million; in 2012, the number fell again, to 2.8 million. See Social Security Administration, "Selected Data from Social Security's Disability Program" (February 2013), www.ssa.gov/OACT/STATS/dibStat.html.

17. See Su Liu and David C. Stapleton, "Longitudinal Statistics on Work Activity and Use of Employment Supports for New Social Security Disability Insurance Beneficiaries," *Social Security Bulletin,* vol. 71, no. 3 (August 2011), pp. 35–59, www.ssa.gov/policy/docs/ssb/v71n3/index.html. Those authors found that over a 10-year period, about 4 percent of an entering cohort of new DI beneficiaries left the program to take a job.

18. For a related discussion, see David H. Autor and Mark G. Duggan, "The Rise in the Disability Rolls and the Decline in Unemployment," *Quarterly Journal of Economics,* vol. 118, no. 1 (February 2003), pp. 157–205, http://economics.mit.edu/files/579.

19. The Affordable Care Act comprises the Patient Protection and Affordable Care Act and the health care provisions of the Health Care and Education Reconciliation Act of 2010 as well as the effects of subsequent related judicial decisions, statutory changes, and administrative actions.

insurance during the two-year waiting period for Medicare benefits, with no exclusions for preexisting conditions, through the health insurance exchanges that will be established under the law. Moreover, that insurance might be subsidized, depending on an individual's income. Those considerations will tend to increase applications to the DI program.

Options for Addressing Fiscal Imbalance in the Program

In its July 2012 study on DI, CBO, in conjunction with the staff of the Joint Committee on Taxation (JCT), estimated the budgetary effects of a variety of potential modifications to the DI program (see Table 1).[20] The estimates presented here are from that report and would change only slightly if updated to reflect CBO's new baseline.[21] For each option presented here, CBO assumed that the policy would take effect at the beginning of calendar year 2013; updated estimates would also reflect later enactment than assumed here. Modifications to the DI program would affect several other federal programs, including, most significantly, the OASI program, Medicare, the SSI program, and Medicaid. However, analysis of those interactions was outside the scope of that report and is not included in this testimony.

Restoring the DI program to a sound budgetary position would require implementing combinations of the policies examined here or other changes to the program. From the perspective of the overall federal budget, the increases in taxes and reductions in spending considered in this analysis would improve the fiscal outlook to varying degrees but would leave very large imbalances between total federal revenues and spending if current policies were continued in all other respects.[22]

Options That Would Increase the Program's Revenues

One approach to addressing the DI program's budgetary imbalance would be to raise the DI tax rate.[23] According to CBO and JCT's analysis, restoring long-term balance (over the next 75 years) between the program's costs and revenues solely through raising the DI payroll tax rate would require an increase of 0.4 percentage points (or 0.2 percentage points each for the employee and employer), from the current 1.8 percent to 2.2 percent. In 2022, for example, that change would boost tax revenues by $28 billion.

Another way to boost revenues would be to increase the maximum taxable earnings limit—that is, the highest amount of employees' wages subject to the DI tax. In recent decades, the earnings of workers in the highest income groups have grown faster than average earnings. As a result, the share of all earnings covered by the Social Security program that were below the taxable maximum shrank from about 90 percent in 1983 to about 83 percent in 2011. In 2037, CBO projects, about 83 percent of all covered earnings will fall below the limit.[24] One option would be to increase the taxable earnings limit only for the DI program (the limit for the other Social Security programs would not be raised) to cover 90 percent of earnings—that is, to increase the maximum taxable earnings limit for the DI portion of the payroll tax from $113,700 in 2013 to $174,000.[25] As reported in *Policy Options for the Social Security Disability Insurance Program*, JCT estimated that such a change would increase revenues by $13 billion in 2022.

Options That Would Reduce the Program's Spending

Options that would reduce spending for the DI program would require scaling back either the number of beneficiaries the program serves or the amount of support each beneficiary receives. The challenge facing policymakers who are aiming to reduce spending is to choose options that maximize savings while minimizing the harm inflicted on people whose disabilities prevent them from working.

20. Congressional Budget Office, *Policy Options for the Social Security Disability Insurance Program* (July 2012), www.cbo.gov/publication/43421.

21. See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023* (February 2013), www.cbo.gov/publication/43907, and "Social Security Disability Insurance—February 2013 Baseline," www.cbo.gov/publication/43888.

22. For a discussion, see Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012), www.cbo.gov/publication/43288.

23. Another approach would be to redirect revenues to the DI trust fund from the OASI trust fund, a course that was followed in legislation enacted in 1994. However, such a redirection of resources would worsen the outlook for the OASI program.

24. Historical data are taken from Social Security Administration, *Annual Statistical Supplement, 2012* (February 2013), Table 4.B1, www.ssa.gov/policy/docs/statcomps/supplement/.

25. CBO did not assume that benefits would be increased to reflect the higher maximum taxable earnings limit. If benefits were increased to reflect that change, the net savings from this option would be smaller.

Table 1.

Summary of Possible Options for Changing the Disability Insurance Program

	Number of Disabled Worker Beneficiaries Affected in 2022 (Thousands)	Effect on DI Revenues or Outlays: In Billions of Dollars in 2022	Percentage Change from Currently Scheduled Revenues or Outlays: In 2022[a]	Percentage Change from Currently Scheduled Revenues or Outlays: In 2037[b]
	Reducing the DI Program's Fiscal Imbalance			
	Effects on Revenues			
Increase Revenues				
Raise the DI tax rate by 0.4 percentage points[c]	n.a.	28	18	22
Increase the amount of earnings that are taxable[c]	n.a.	13	8	8
	Effects on Outlays			
Change the DI Benefit Formula				
Reduce all benefits by 15 percent	6,200	-22	-11	-14
Reduce DI benefits for people age 53 and older	1,900	-6	-3	-7
Change the Way DI Benefits Grow Over Time—Reduce COLAs by Using a Different Measure of Inflation[d,e]	10,100	-3	-1	-2
Change Eligibility Rules				
Eliminate eligibility starting at age 62[f]	500	-12	-6	-6
Require applicants to have worked more in recent years	400	-8	-4	-5
Increase the age at which disability requirements become less restrictive	50	-1	-1	-3
Change Waiting Periods—Extend the Waiting Period for Benefits from 5 Months to 12 Months	900	-11	-6	-7
	Providing Greater Support to DI Beneficiaries—Effects on Outlays			
Increase the COLA by 1 Percentage Point[d]	10,100	16	8	6
Eliminate the Five-Month Waiting Period	900	8	4	5

Source: Congressional Budget Office.

Note: DI = disability insurance; n.a. = not applicable; COLA = cost-of-living adjustment.

a. Changes are measured against CBO's March 2012 baseline; see Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012), www.cbo.gov/publication/43119.

b. Changes are measured against estimates in Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012), www.cbo.gov/publication/43288.

c. Estimates of revenues for 2022 provided by the staff of the Joint Committee on Taxation.

d. CBO's estimates for options affecting COLAs apply to all beneficiaries; estimates for all other options that change outlays apply only to new beneficiaries in 2013 and later.

e. CBO's estimates for this option apply the reduction in the COLA to beneficiaries of the entire Social Security system—the Old-Age and Survivors and Disability Insurance programs—and to recipients of Supplemental Security Income. The table shows only the savings to the DI program. Savings for all three programs would total $25 billion in 2022.

f. CBO's estimates for this option apply the elimination of eligibility to DI beneficiaries only. The resulting savings are offset by an increase in Old-Age and Survivors Insurance benefits of $9.3 billion in 2022, for a net reduction in Social Security spending of $2.4 billion in that year.

Change the Benefit Formula. One way to reduce the costs of the DI program would be to alter the amount of insurance it provides by changing the formula used to calculate benefits. Like Social Security retirement benefits, DI benefits are based on a worker's past earnings and are calculated using a progressive formula that replaces more of the earnings of low-wage workers than of high-wage workers.[26] (That is, workers who have higher earnings receive larger benefits, but the replacement rate—the portion of a worker's earnings that the benefits replace—declines as earnings rise.) Specifically, the primary insurance amount (PIA) formula for DI benefits has three components, any of which could be altered by policymakers:

- *Average indexed monthly earnings (AIME).* The AIME is a measure of a worker's lifetime earnings. It is calculated as the sum of his or her earnings, indexed to compensate for inflation and for the real growth of wages in the economy as a whole, divided by the number of months over which the earnings were obtained. For disabled worker beneficiaries, the AIME is computed by using an individual's indexed earnings between the age of 22 and the year of onset of his or her disability.

- *Primary insurance amount factors*. The PIA factors are the rates by which the components of the AIME are multiplied—specifically, 90 percent, 32 percent, and 15 percent. The PIA factors, which are fixed by law, have been at those percentages since 1977.[27]

- *Bend points.* The dollar amounts of the AIME at which the PIA factors change are called bend points. They govern the portions of the AIME associated with each PIA factor and change annually when the national average wage index rises. In 2013, the bend points are $791 and $4,768. Thus, a person with an AIME below $791 receives a DI benefit equal to 90 percent of that amount; a person with an AIME between $791 and $4,768 receives 90 percent of the first $791 and 32 percent of the remainder; and a person with an AIME above $4,768 receives 90 percent of the first $791, 32 percent of the next $3,977 ($4,768 minus $791), and 15 percent of the amount above $4,768.

CBO analyzed two options that would modify the formula for computing DI benefits:

Reduce All Benefits by 15 Percent. Policymakers could choose to reduce all DI benefits by the same amount, a change that would maintain the existing progressivity of the DI program. For example, benefits for newly eligible workers could be cut by 15 percent by reducing each PIA factor by that percentage (to 77 percent, 27 percent, and 13 percent).[28] In *Policy Options for the Social Security Disability Insurance Program*, CBO estimated that such a change would reduce outlays for benefits by $22 billion in 2022.

Reduce Benefits for People Age 53 and Older. Under the current Social Security system, workers who claim retirement benefits at age 62 rather than at their full retirement age are subject to an actuarial reduction that lowers their benefits for as long as they live. In contrast, workers who move from employment to the DI program's rolls at age 62, and then switch to Social Security's retirement program at their full retirement age, are not subject to a reduction. Instead, they receive approximately the same retirement benefits in each year that they would have received if they had enrolled directly in the retirement program at their full retirement age. A potential change to benefits for DI beneficiaries would be to impose the same penalty on them at age 62 that is now paid by early retirees.

CBO analyzed the budgetary effects of such an approach by considering an option that would reduce newly awarded benefits for older workers on the basis of their age. Specifically, for people born in 1960 and later, CBO estimated the effect of permanently reducing an older person's DI benefits at the time the benefits are first awarded; starting at age 53, benefits would be reduced by

26. For a more detailed discussion of the Social Security benefit formula, see Congressional Budget Office, *Social Security Policy Options* (July 2010), www.cbo.gov/publication/21547.

27. For further discussion, see Social Security Administration, "Automatic Determinations: Social Security Benefit Amounts" (October 19, 2011),www.ssa.gov/oact/cola/Benefits.html; and L. Scott Muller, "The Effects of Wage Indexing on Social Security Disability Benefits," *Social Security Bulletin*, vol. 68, no. 3 (2008), pp. 1–44, www.socialsecurity.gov/policy/docs/ssb/v68n3/index.html.

28. In earlier work, CBO estimated the costs associated with the same option for the entire OASDI program and found that outlays for the Social Security system would decline by about 12 percent relative to outlays currently scheduled for 2040. See Congressional Budget Office, *Social Security Policy Options* (July 2010), p. 21, www.cbo.gov/publication/21547.

3 percent, with an additional 3 percent reduction occurring at each subsequent year of age. Thus, a person who was newly awarded benefits at age 54 (in 2014 or later) would face a permanent reduction in benefits of 6 percent, a person who was newly awarded benefits at age 55 (in 2015 or later) would face a permanent reduction in benefits of 9 percent, and so on. Ultimately, a new beneficiary who was 62 years old would receive a permanent benefit reduction of 30 percent, which would make his or her benefit equal to the reduced Social Security retirement benefit at that age for workers born in 1960 and later. A new beneficiary between the ages of 62 and 67 (the full retirement age for that group of workers) would receive a benefit equal to the Social Security retirement benefit he or she would have received at that age. In 2022, CBO estimated, such a change would affect 1.9 million people and reduce outlays by $6 billion.

Change the Way Benefits Grow Over Time. The DI program adjusts disabled workers' benefits annually to account for increases in the prices of goods and services. For those calculations, the program currently uses the consumer price index for urban wage earners and clerical workers (CPI-W); under this option, the program would switch to a different indexing factor—specifically, the chained CPI.[29] Over the next 10 years, CBO estimates, the chained CPI is likely to grow more slowly than the current CPI-W—on average, 0.25 percentage points per year more slowly. If that trend continued, this option would effectively reduce the growth of benefits for all DI beneficiaries. For example, the benefit of a disabled worker under current law might have grown during the next 10 years from $1,111 per month to $1,344 per month, but that same worker's benefit under this option (that is, indexation using the chained CPI) would grow more slowly, from $1,111 per month to $1,312 per month. By CBO's estimate, that change would reduce outlays for DI by about $3 billion in 2022.

Change Eligibility Rules. The eligibility standards for receiving benefits from the DI program could be altered in numerous ways.

Eliminate Eligibility Starting at Age 62. The DI benefits that workers receive at age 62 equal the OASI (retirement) benefits they would have received at their full retirement age, a policy that encourages people to apply for DI and OASI benefits simultaneously. CBO estimated the budgetary impact of preventing workers from applying for DI benefits after their 62nd birthday or from receiving awards if the date they become eligible for benefits is after that birthday. Under such a policy, individuals who would have become eligible for DI benefits at age 62 or later would instead have to claim retirement benefits. Benefits for those people over their lifetime would be as much as 30 percent lower, on average, than the DI and OASI benefits they would have claimed. (The actual reduction in lifetime benefits would depend on their year of birth, the age at which they claimed retirement benefits, and how long they lived.) In addition, those individuals would not receive Medicare coverage until age 65, although they might be eligible for Medicaid coverage or for subsidies for health insurance purchased through an insurance exchange before then. On the one hand, this option might induce some people to work longer than they will work under current law; on the other hand, it might induce some people who would otherwise work until age 62 or 63 to leave the labor force at age 61 and apply for DI benefits. Such a change would reduce outlays for DI by $12 billion in 2022, but increase spending for OASI benefits. On net, CBO estimated, such a change would reduce OASDI outlays by about $2 billion in 2022.

Require Applicants to Have Worked More in Recent Years. To be eligible for benefits under the current DI program, disabled workers must generally have worked 5 out of the past 10 years.[30] CBO estimated that a policy that would tighten the eligibility rule by requiring disabled workers to have worked 4 of the past 6 years would affect 400,000 people and reduce outlays by $8 billion in 2022.

Increase the Age at Which Disability Requirements Become Less Restrictive. One set of DI eligibility criteria for people who do not have a specific SSA-designated medical impairment is based on whether an applicant can find a

29. For a broader discussion of the effects of such a switch, see Congressional Budget Office, *Using a Different Measure of Inflation for Indexing Federal Programs and the Tax Code* (February 2010), www.cbo.gov/publication/21228. For an estimate of the effect of such a switch for all mandatory programs and the tax code, see Congressional Budget Office, "Preliminary Estimate of the Budgetary Effects of Using the Chained CPI for Mandatory Programs and the Tax Code Starting in 2014," www.cbo.gov/publication/43965.

30. For the purposes of computing Social Security benefits, a year of work is defined as having earnings that exceed Social Security's "quarters of coverage" threshold. In 2013, a worker receives one quarter of coverage (up to a total of four quarters in the year) for each $1,160 of annual earnings. The amount of earnings required for a quarter of coverage generally increases annually at the same rate as the rise in the average wage index.

job. The criteria are known as vocational factors, and they vary with age, becoming less restrictive at ages 45, 50, 55, and 60 than they are at earlier ages.[31] CBO estimated the budgetary impact of shifting upward the age ranges for the vocational factors. The current factors for ages 45 to 49, 50 to 54, and 55 to 59 would apply instead to ages 47 to 51, 52 to 56, and 57 to the full retirement age, respectively; the current vocational factor for age 60 and the factors for ages 45 to 46 would be eliminated. Such a change would reduce outlays in 2022 by $1 billion, CBO estimated.

Extend the Waiting Period for Benefits. To be deemed eligible for the DI program and ultimately to be awarded benefits, applicants must have earnings that fall below a threshold amount—called the substantial gainful activity (SGA) amount—for at least five months, which constitutes a waiting period during which applicants receive no support from the program. Lengthening the DI program's waiting period would reduce outlays for benefits and might deter some people from applying. At the same time, if the waiting period was lengthened, it would make many disabled workers worse off because they would be forced to wait longer for benefits. CBO estimated that a policy in which the waiting period for DI benefits was extended to 12 months would reduce outlays for DI benefits by $11 billion in 2022.

Change Certain Administrative Features of the Program. SSA could alter the administration of the DI program in a number of ways that might affect the program's costs. CBO identified two such potential changes. However, because there is little evidence as to the impact such policies would have, CBO did not estimate their potential budgetary effects.

Modify the Appeals Process for Disability Claims. The initial consideration and disposition of a disabled worker's application for benefits from the DI program are the responsibility of the Disability Determination Services (DDS), which are agencies funded by SSA and administered by the states.[32] If a person's application is denied at the DDS level, the applicant can either terminate the application process or appeal the decision. Certain appeals may be adjudicated before administrative law judges—individuals appointed by SSA who conduct hearings at about 180 offices across the country.[33] Those officials are trained at the local hearing office at which they are employed.

Researchers have suggested different ways in which SSA could improve the administration of the DI program at the hearings level. They include modifying the selection criteria for administrative law judges, increasing the length of their training, and improving the consistency of training among localities. Another example of a possible change in the program's administrative procedures involves altering the hearing process. Applicants for DI benefits are permitted legal representation at appeal hearings; SSA has no such representation. Policymakers could allow SSA to be so represented, which in the short term would add certain costs for hiring and training but might over the long run result in lower spending for the program because fewer people would be admitted.[34] However, the effects that any of those modifications would have on the disability determination process are uncertain, and CBO has not estimated their budgetary impact.

Increase the Frequency of Continuing Disability Reviews. An option related to recent growth in the DI program involves SSA's periodic reexamination of cases through continuing disability reviews (CDRs). CDRs help the agency determine whether disabled workers are still eligible for benefits, and they tend to lower outlays for the program because the average reduction in benefits associated with a CDR is significantly greater than the average cost of a review. The Budget Control Act of 2011

31. Recent research shows the large increase in the rate of DI awards at those ages. See Joyce Manchester and Jae G. Song, "What Can We Learn From Analyzing Historical Data on Social Security Entitlements?" *Social Security Bulletin,* vol. 71, no. 4 (November 2011), pp. 1–13, www.ssa.gov/policy/docs/ssb/v71n4/index.html.

32. For details on the application and appeals process, see Congressional Budget Office, "DI: The Social Security Disability Insurance Program" (infographic, July 2012), www.cbo.gov/publication/43432.

33. Social Security Administration, *Annual Statistical Supplement, 2011* (Office of Retirement and Disability Policy, February 2012), Table 2.F1, www.ssa.gov/policy/docs/statcomps/supplement/2011/index.html#fileList.

34. See David H. Autor and Mark G. Duggan, "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding," *Journal of Economic Perspectives*, vol. 20, no. 3 (Summer 2006), pp. 71–96, www.aeaweb.org/articles.php?doi=10.1257/jep.20.3.71; and Social Security Advisory Board, *Improving the Social Security Administration's Hearing Process* (September 2006), www.ssab.gov/documents/HearingProcess.pdf, and *Charting the Future of Social Security's Disability Programs: The Need for Fundamental Change* (January 2001), www.ssab.gov/Publications/Disability/disabilitywhitepap.pdf.

allows the current limits on overall federal discretionary spending to be adjusted to permit additional appropriations for conducting CDRs.[35]

CBO's 2011 cost estimate for the Budget Control Act identified the effect on outlays that would occur if the Congress appropriated the maximum amounts for which such adjustments to the spending limits could be made.[36] In CBO's estimation, such appropriations would have added about $4 billion in funding for SSA to CBO's baseline over the 2012–2021 period. If that additional funding was appropriated, spending for benefits from the DI program, SSI, Medicare, and Medicaid would fall by nearly $12 billion during that period, and additional savings would accrue after 2021. CBO has not estimated the effects of even larger appropriations for such purposes or of other changes in the manner in which CDRs are conducted.

Options for Providing Greater Support to Beneficiaries

Alternatively, lawmakers could choose to modify the DI program in ways that would provide greater support to certain DI beneficiaries and increase spending for the program. CBO examined two policy options of that sort.

Increase the Cost-of-Living Adjustment

One way in which lawmakers could provide greater support to DI beneficiaries would be to increase the rate at which benefits grow over time. CBO examined a proposal that would increase the annual cost-of-living adjustment (COLA) by 1 percentage point. One consequence of such a change is that disabled workers who became entitled to benefits when they were relatively young would experience more years of the enhanced COLA in their benefits than would workers who were awarded support when they were older. By CBO's estimate, that change would boost outlays in 2022 by $16 billion.

Eliminate the Waiting Period

If lawmakers eliminated the DI program's waiting period for applicants, a worker would be eligible for DI benefits on the day he or she was deemed to become disabled or to have stopped working because of the onset of disability. As under the current program, DI beneficiaries would receive a "retroactive" benefit—a lump-sum payment for the time between their application to the program and their approval for benefits. CBO estimated that, in 2022, implementing this change would increase outlays by $8 billion.

Possible Approaches to Making Fundamental Changes in the Program

Changes in the U.S. economy, advances in medicine and technology, and the evolution of views about disability during the past several decades suggest that the DI program's model of disability, in which disabled people leave the labor force, may be outdated. In particular, those recent economic and perceptual shifts suggest that a disability insurance system that emphasized workers' continuing in their jobs might lead to a higher rate of employment among those with disabilities than is now the case.[37]

The effect of that kind of job-continuation model on the DI program's rolls and costs would depend on the changes in policy that established it, and only limited evidence is available on the potential impact of such changes. Therefore, CBO did not estimate the budgetary effects of specific changes of that sort. However, the agency reviewed proposals for such fundamental reforms to the DI program and summarized the main themes

35. That additional money may also be used to fund CDRs for SSI beneficiaries and redeterminations of whether SSI recipients still meet the program's nonmedical eligibility criteria—that is, those related to income and assets. The law allows for similar adjustments to the spending limits for additional appropriations for Medicare, Medicaid, and the Children's Health Insurance Program to ensure that enrollees meet the programs' eligibility criteria, that claims are paid accurately, and that the programs are managed effectively and efficiently.

36. Congressional Budget Office, letter to the Honorable John Boehner and the Honorable Harry Reid about CBO's analysis of the impact on the deficit of the Budget Control Act of 2011, as posted on the Web site of the House Committee on Rules on August 1, 2011 (August 1, 2011), www.cbo.gov/publication/41626.

37. For further discussion, see Jeffrey B. Liebman and Jack A. Smalligan, *An Evidence-Based Path to Disability Insurance Reform* (Brookings Institution, Hamilton Project, February 2013), www.brookings.edu/research/papers/2013/02/disability-insurance-reform?rssid=jobs; Richard V. Burkhauser and Mary C. Daly, *The Declining Work and Welfare of People with Disabilities: What Went Wrong and a Strategy for Change* (AEI Press, 2011); and David H. Autor and Mark G. Duggan, *Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System* (Brookings Institution, Hamilton Project, December 2010), www.brookings.edu/papers/2010/12_disability_insurance_autor.aspx.

among them: moving to a so-called partial disability system or, for newly disabled workers, focusing on their rehabilitation and reemployment rather than on their receipt of benefits. In CBO's assessment, such changes would probably not yield significant short-term cost savings but could provide long-term savings or achieve other goals, such as improving the well-being of people with disabilities.

The Capacity for Work Among People With Disabilities

Over the past 20 years, the percentage of people with disabilities who are employed has declined sharply, from about 29 percent in calendar year 1990 to about 16 percent in 2010.[38] The drop in employment does not appear to be explained by a rising inability to do any work, nor does it seem to be attributable primarily to the ups and downs of the business cycle. Instead, recent research shows that an increasing number of DI claims are coming from younger workers with mental or musculoskeletal disorders—despite other evidence indicating that those workers often have some capacity to remain part of the labor force.[39] Another study, using data on accepted and rejected applicants with similar conditions, also found that some new DI beneficiaries were able to continue working.[40] To be sure, not all DI beneficiaries are candidates for reemployment. Still, evidence of existing work capacity among disabled workers—perhaps owing in part to increased use of assistive technologies and workplace accommodations—implies that the design of the DI program might contribute to the relatively low rate of employment among people with disabilities.[41]

Strategies for Reducing the Number of People Who Leave the Workforce and Become Beneficiaries

The limited success of programs designed to increase the rate at which DI beneficiaries and applicants return to work has spurred proposals aimed at supporting employment for people with disabilities before they quit their job to begin the application process. Ideally, such proposals can enable people with disabilities to remain in the workforce and can thereby slow the movement of such people onto the DI rolls. In the face of fiscal challenges that are similar to those confronting the United States, several other nations have implemented some of those types of changes.

Move to a Partial Disability System. One way to encourage workers with disabilities to participate in the labor market is to move to a partial disability system of the kind used by the Department of Veterans Affairs and by many workers' compensation systems. Partial disability systems generally use a predetermined schedule to calculate a "percent disabled" rating for each recipient; those percentages then determine the amount of the payments a person will receive. Such a system avoids the either/or threshold currently employed in the DI program in which employment and disability are considered incompatible. A partial disability system explicitly recognizes that a worker with a disability that restricts his or her activity by, say, 30 percent or 50 percent still has some remaining capacity to work.

However, the difficulty of managing partial disability systems combined with increased administrative expenditures and lost earnings among those with partial disabilities has led several European nations (for example, the Netherlands, Norway, and Switzerland) to move away from partial disability insurance and toward approaches that directly involve employers in helping individuals with disabilities remain in the labor market.[42]

38. See Employment and Disability Institute, "U.S. Disability Statistics: Current Population Survey" (various years), www.disabilitystatistics.org. For a discussion of the technical issues related to measuring employment rates among people with disabilities, see Burt S. Barnow, "The Employment Rate of People with Disabilities," *Monthly Labor Review*, vol. 131, no. 11 (November 2008), pp. 44–50, www.bls.gov/mlr/2008/11/contents.htm.

39. Till von Wachter, Jae Song, and Joyce Manchester, "Trends in Employment and Earnings of Allowed and Rejected Applicants to the Social Security Disability Insurance Program," *American Economic Review,* vol. 101, no. 7 (December 2011), pp. 3308–3329, www.aeaweb.org/articles.php?doi=10.1257/aer.101.7.3308.

40. Nicole Maestas, Kathleen J. Mullen, and Alexander Strand, *Does Disability Insurance Receipt Discourage Work?* RAND Working Paper WR-853-2 (RAND, March 2011), www.rand.org/pubs/working_papers/WR853-2.html. Also see Eric French and Jae Song, *The Effect of Disability Insurance Receipt on Labor Supply,* Federal Reserve Bank of Chicago Working Paper 2009-05 (revised July 1, 2011), www.chicagofed.org/webpages/publications/working_papers/2009/wp_05.cfm.

41. See, for example, Cornell University, *Assistive Technology, Accommodations, and the Americans with Disability Act* (December 2000), www.ilr.cornell.edu/extension/files/download/Assistive_Tech.pdf.

42. See Organisation for Economic Co-operation and Development, *New Ways Of Addressing Partial Work Capacity: OECD Thematic Review on Sickness, Disability, and Work Issues Paper and Progress Report* (OECD, April 2007), www.oecd.org/dataoecd/6/6/38509814.pdf.

Involve Employers in Supporting Workers With Disabilities. Employers are not allowed to discriminate against people with disabilities and are required by law to make reasonable accommodations for them in the workplace. In most cases, employers have some financial incentive to actively participate in keeping workers with disabilities on the job. However, because the DI program is funded through a flat-rate payroll tax on employers and employees, employers do not bear the costs associated with a disabled worker who stops working and becomes a beneficiary in the DI program.

In recent years, the policies of a number of European countries have changed to transfer more of the cost of providing disability benefits to employers. One way that shift has been accomplished is by making employers responsible for paying benefits for a fixed amount of time. That period can vary from as much as two years in the Netherlands to just six months in the United Kingdom. Like the U.S. system of workers' compensation, the European programs are meant to encourage employers to accommodate workers with disabilities and to provide rehabilitation services rather than move those workers into a system that pays long-term cash benefits.[43] Countries that have adopted the employer-involvement model are developing strategies to assist employers in managing their workers with disabilities.[44] One challenge with such an approach is determining the time horizon over which a firm is responsible for an ex-employee who enters the DI program.

Lawmakers in the United States could consider similar changes. Firms could be required to pay some portion of a disabled worker's earnings in place of disability benefits for, say, two years; after that initial period, disabled workers could apply for DI benefits. Private-market provision of such short-term disability insurance—similar to arrangements in some European nations—might develop in that environment.[45] As an alternative to requiring firms to provide insurance, employers who did so, and whose private insurance agents cooperated with SSA in managing their cases, could be granted a reduction in DI tax rates, while firms that did not offer private insurance could be charged a higher DI tax rate. This approach has been adopted by Switzerland, for example.[46]

Another way in which European nations have encouraged employers to accommodate workers with disabilities rather than move them to cash benefit programs is by applying "experience rating" to the contributions employers make for disability benefits. In the context of the DI program, experience rating would mean raising the DI payroll taxes of firms whose workers became beneficiaries of the DI program at above-average rates, lowering the payroll taxes of firms whose workers claimed benefits at below-average rates, or both. Experience rating provides a financial incentive for employers to engage in practices that promote continued work by people with disabilities.[47] The Netherlands and Finland use such a strategy, as do workers' compensation programs and the unemployment insurance program in the United States.[48]

One criticism of experience rating is that it could discourage employers from hiring people with disabilities, potentially increasing growth in the number of beneficiaries in the DI program. That type of behavior is illegal and would come with significant costs if it was discovered, but uncovering and prosecuting such behavior might be difficult.

43. For a discussion of the differences between the programs of other countries, see Organisation for Economic Co-operation and Development, *Sickness, Disability, and Work: Breaking the Barriers; A Synthesis of Findings Across OECD Countries*, (OECD, November 2010), http://dx.doi.org/10.1787/9789264088856-en.

44. See also the various OECD publications that make up the OECD series *Sickness, Disability, and Work* at www.oecd.org/els/disability.

45. For details of such a proposal, see David H. Autor and Mark G. Duggan, *Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System* (Brookings Institution, Hamilton Project, December 2010).

46. Ibid. For further discussion, see Richard V. Burkhauser and Mary C. Daly, *The Declining Work and Welfare of People With Disabilities: What Went Wrong and a Strategy for Change* (AEI Press, 2011).

47. Ibid.

48. Organisation for Economic Co-operation and Development, *Sickness, Disability, and Work: Breaking the Barriers; A Synthesis of Findings Across OECD Countries* (OECD, November 2010), http://dx.doi.org/10.1787/9789264088856-en.

About This Document

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