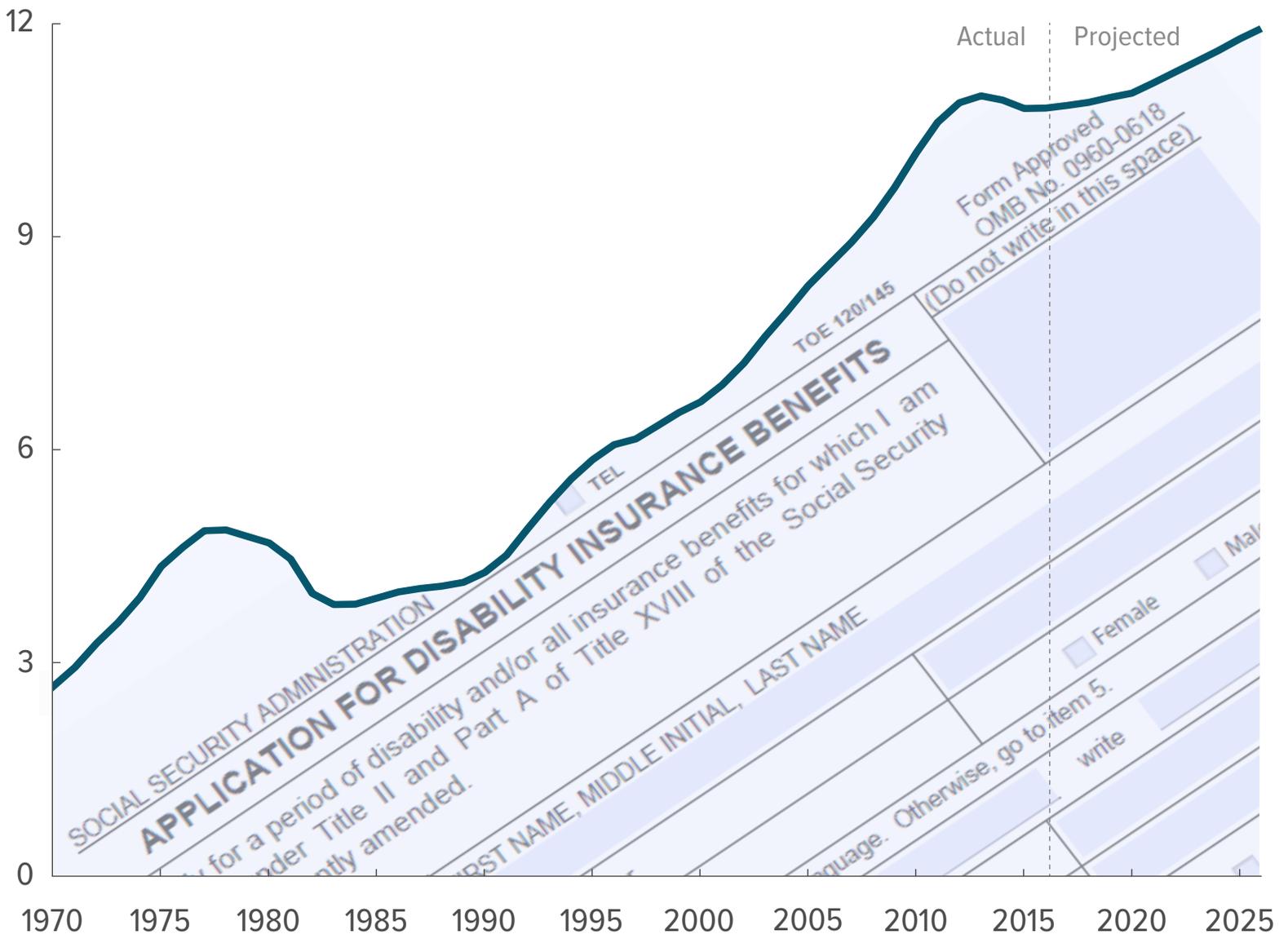


# CBO

## Social Security Disability Insurance: Participation and Spending

Millions of Beneficiaries



JUNE 2016

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## Notes

Unless otherwise specified, all years referred to in this report are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

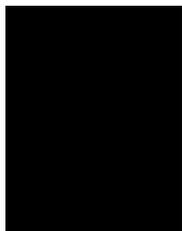
Unless otherwise specified, all spending amounts are reported in 2015 dollars. Amounts are adjusted for inflation by using the price index for personal consumption expenditures prepared by the Bureau of Economic Analysis.

In this report, the number of beneficiaries in a year is the average of monthly counts over the fiscal year.

Numbers in the text may not add up to totals because of rounding.

Data underlying the figures are posted along with this report on CBO's website.

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# Social Security Disability Insurance: Participation and Spending

## Summary

The Social Security Disability Insurance (DI) program pays cash benefits to nonelderly adults who have worked in the past but are judged to be unable to continue performing substantial work because of a disability. The program also pays benefits to some of those adults' dependents. In 2015, the DI program paid a total of \$143 billion, or about 0.8 percent of gross domestic product (GDP), in benefits to almost 9 million disabled beneficiaries and about 2 million of those beneficiaries' spouses and children. Disabled beneficiaries generally are entitled to Medicare after a two-year waiting period; the cost of those benefits in 2015 was around \$85 billion, or about 0.5 percent of GDP, the Congressional Budget Office estimates.

## How Have Enrollment and Spending Changed Since 1970?

Between 1970 and 2014, the share of working-age people who receive DI benefits as a result of their own disability and whose DI benefits are calculated on the basis of their own disability and work history more than tripled, increasing from 1.3 percent to 4.5 percent, before declining slightly in 2015. The increase in DI beneficiaries since 1970 is attributable to changes in the characteristics of the working-age population, in federal policy, and in employment.

Between 1970 and 2015, average annual benefits in the DI program rose from \$5,100 to \$12,200 (in 2015 dollars). That growth resulted from changes in the formula used to compute benefits and increases in overall average earnings.

As a result of the increases in the number of DI beneficiaries and in spending per beneficiary, spending on DI benefits, excluding the effects of inflation, grew more than 10-fold between 1970 and 2015 and nearly tripled as a share of GDP.

## What Are CBO's Projections for the Program Under Current Law?

Under current law, CBO projects, the number of DI beneficiaries would rise by 0.8 percent per year over the next decade; excluding the effects of inflation, the average benefit would rise by 0.9 percent per year and total spending on benefits would rise by 1.9 percent per year, on average. Benefits are paid from a trust fund financed primarily by receipts from payroll taxes; the trust fund's balance is the difference between cumulative income and cumulative spending.

The projected exhaustion date for the DI trust fund was recently delayed by enactment of the Bipartisan Budget Act of 2015. That legislation reallocated a share of payroll tax revenues from the trust fund for Old-Age and Survivors Insurance (OASI) to the DI trust fund for calendar years 2016 through 2018, leading to an increase in the projected income to the DI trust fund.

Even though CBO projects that the DI caseload will grow at a more modest rate over the coming decade than in the years before the most recent recession, under current law spending would exceed income after 2018, and the trust fund would be exhausted in 2022, according to CBO's projections (see Figure 1). If that balance fell to zero and current income was insufficient to cover the benefits specified in law, the Social Security Administration (SSA) would no longer be permitted to pay full benefits when they were due. After the exhaustion of the trust fund, annual outlays would be limited to annual income. As a result, DI spending would have to be reduced by about one-fifth under current law.

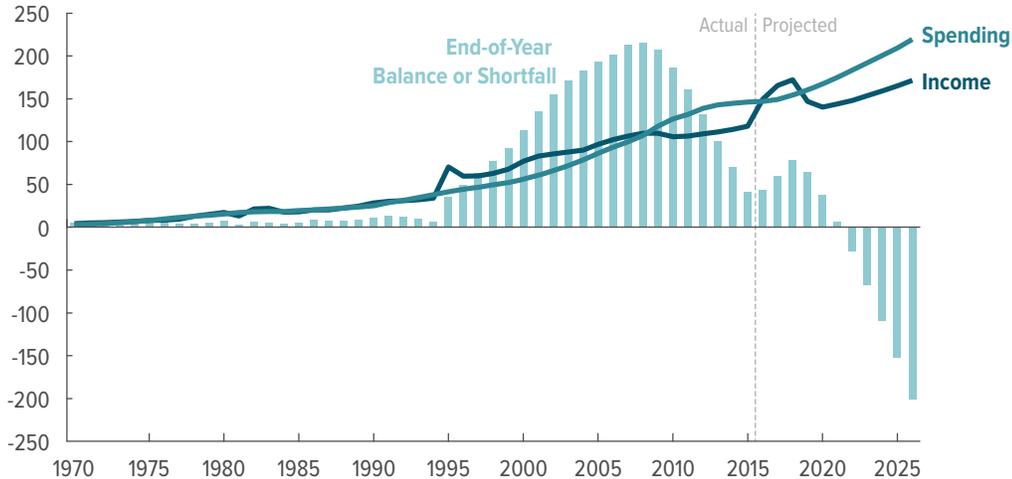
## How Might Policymakers Delay or Avoid Exhaustion of the Program's Trust Fund?

To further delay—or avoid altogether—exhaustion of the program's trust fund, policymakers could implement changes to improve the financial sustainability of the DI

Figure 1.

**Spending, Income, and Balance of the Disability Insurance Trust Fund, 1970 to 2026**

Billions of Nominal Dollars



Under current law, the Disability Insurance Trust Fund would be exhausted in 2022, CBO projects. If there is no change to current law, DI spending would be reduced by about one-fifth beginning in that year.

Sources: Congressional Budget Office; Office of Management and Budget.

Disability Insurance (DI) spending consists of benefit payments as well as administrative and other expenses. Income consists of tax revenues and interest credited on previous balances. Under current law, the Disability Insurance Trust Fund cannot incur negative balances, nor is it permitted to borrow to cover unmet obligations. The shortfall is the accumulated difference between spending and income after the fund is exhausted; interest is not taken into account (as it is for the positive balances).

program. For example, they could increase income for the DI trust fund by raising payroll taxes. Alternatively, they could strengthen incentives for people with disabilities to continue to work or for employers to retain workers with disabilities, thus reducing the number of workers who apply for benefits. They also could reduce the benefits paid to beneficiaries. However, changes made with the intent of lowering the DI program's spending might have other consequences for the federal budget by, for instance, increasing spending for other means-tested programs.<sup>1</sup>

### How Does the Disability Insurance Program Work?

The DI program provides income to nonelderly adults—those younger than the full retirement age, currently 66—who have worked in the past but who are deemed unable to perform substantial work now because of a

medical condition that is expected to last more than a year or to result in death. Some family members of disabled beneficiaries, including certain spouses and children under 18, also qualify for benefits.

In addition, Social Security provides income to certain disabled people who have not worked in the past but who have a family member—usually a parent or a spouse—who did work in the past. (Some of those benefits are paid from DI, and some from OASI, depending on whose work history their benefit is based on.) Disabled widows or widowers may receive benefits based on their spouse's work history. Disabled adults who acquired their disability before age 22 may receive benefits based on their parent's work history if that parent is receiving either disability or retirement benefits or is deceased; such beneficiaries are referred to as disabled adult children, because their benefit is based on their parent's work history.

In this report, 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 work history. Such beneficiaries are also referred to as disabled worker beneficiaries, disabled workers, or disabled insured beneficiaries.

1. For a more detailed discussion of policy options affecting the DI program, see Congressional Budget Office, *Social Security Policy Options, 2015* (December 2015), [www.cbo.gov/publication/51011](http://www.cbo.gov/publication/51011), and *Policy Options for the Social Security Disability Insurance Program* (July 2012), [www.cbo.gov/publication/43421](http://www.cbo.gov/publication/43421). This report updates Congressional Budget Office, *Social Security Disability Insurance: Participation Trends and Their Fiscal Implications* (July 2010), [www.cbo.gov/publication/21638](http://www.cbo.gov/publication/21638), which examined trends in the program from 1970 to 2009.

Disabled beneficiaries receive monthly payments for as long as they remain in the program. Such beneficiaries leave the DI program's rolls for three main reasons: They reach the full retirement age and transfer to Social Security's retirement program; they die; or they no longer meet the definition of disabled used by the program, in some cases because they have returned to work.

Other federal programs also provide support for people with disabilities. After two years on the DI program, disabled beneficiaries are entitled to Medicare benefits. (Disabled beneficiaries with certain impairments—such as amyotrophic lateral sclerosis, also known as Lou Gehrig's disease—are entitled to Medicare benefits when their DI benefits start.) In December 2014, about 12 percent of disabled beneficiaries also received Supplemental Security Income (SSI) benefits. (SSI provides cash benefits to people with disabilities who have low income and few assets.) In addition, disabled veterans may receive benefits through veterans' disability compensation programs, and federal workers with work-related injuries may qualify for benefits from federal workers' compensation programs.

### Entry Into the Program

To be eligible for the DI program, workers must have a sufficient history of work, which makes them "disability insured," but no longer be able to engage in substantial work because of a disability. Generally, people over the age of 30 must have worked during one-quarter of the years since they were 21 and during 5 of the past 10 years; younger workers are subject to slightly different rules.<sup>2</sup> Eligibility for benefits also requires that workers have monthly earnings below a threshold known as the substantial gainful activity (SGA) amount, which, in calendar year 2016, is \$1,130 a month or \$1,820 a month for blind beneficiaries. After the onset of a disability, earnings must be below the SGA amount for five months before benefits can begin. The rules governing the program place no limit on the assets or nonwage income (from the earnings of a spouse, for example, or from interest or dividends) of DI beneficiaries.

The dividing line between those who can and cannot perform substantial work is not always clear. Some people who are employed have medical conditions that would allow them to qualify for the program if they stopped working. Conversely, some disabled beneficiaries could

probably work and would leave the DI rolls if they found a suitable job. Furthermore, if a person is no longer able to perform substantial work in the type of jobs he or she previously held because of a disability, it may be determined that the person could perform substantial work in a different type of job. A person's age, education, and work experience are factors in determining whether he or she can adjust to new types of work. For instance, older people with less education or fewer skills are expected to have more difficulty adjusting to new types of work than their younger or more educated counterparts.<sup>3</sup>

Initially, determining whether an applicant's disability qualifies him or her for benefits is the job of the Disability Determination Services (DDSs), which are agencies funded by SSA but administered by the states. Of the initial claims for disability processed by DDS agencies in calendar year 2015, about 30 percent were approved.<sup>4</sup> The average time between the date of the application and the initial decision was 114 days in 2015 (the most recent year for which such data are available).<sup>5</sup>

If a DDS agency rejects an application, the applicant may appeal the decision by requesting a hearing before an administrative law judge (ALJ).<sup>6</sup> Of the applications received in calendar year 2011 (the most recent year for which almost all applications have been resolved) and rejected by DDSs for not meeting the medical standard, appeals to ALJs were filed in about 40 percent of the cases; in 60 percent of those appealed cases, the initial medical decisions were ultimately reversed.<sup>7</sup> Several factors may help explain the reversal rate. First, unlike what happens in the DDS process, applicants usually attend hearings and may present their case directly to the judge.

2. Social Security Administration, *How You Earn Credits*, 05-10072 (January 2016), pp. 4–5, <http://go.usa.gov/ccTNG> (PDF, 302 KB).

3. For more detail on how vocational factors such as age can affect eligibility for disability benefits, see "Medical-Vocational Guidelines," 20 C.F.R. pt. 404, subpt. P, app. 2 (2015), <http://go.usa.gov/chjnd>.

4. Computed by CBO, using data from Social Security Administration, "SSA State Agency Monthly Workload Data" (accessed March 30, 2016), [www.ssa.gov/disability/data/ssa-sa-mowl.htm](http://www.ssa.gov/disability/data/ssa-sa-mowl.htm). The percentage of claims approved varied substantially among states.

5. Social Security Administration, *Annual Performance Report: 2015–2017*, Table 3.1i, [www.ssa.gov/agency/performance](http://www.ssa.gov/agency/performance).

6. In most states, applicants must request a reconsideration from the DDS before requesting a hearing from an ALJ.

7. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2014*, 13-11826 (November 2015), Tables 60–63, <http://go.usa.gov/ckc6v>.

Second, applicants are more likely to have retained a lawyer for the appeal, which probably increases the likelihood of their claims' being approved. Third, applicants are permitted to submit additional medical evidence for their hearing, so the judge's decision may be based on new information. Fourth, an applicant's condition may have worsened since the initial decision by the DDS. Finally, given the length of time required for the appeals process, applicants who believed they had a relatively strong case were probably more likely to appeal.

In recent years, the number of appeals has greatly outstripped the ability of ALJs to process cases, leading to long delays. For instance, the average wait time from hearing request to decision was 480 days in 2015.<sup>8</sup> SSA cites an inadequate number of ALJs as an obstacle to reducing the wait time.<sup>9</sup>

### Benefits in the Program

Average monthly benefits for disabled beneficiaries were \$1,166 in May 2016 (in nominal dollars). Benefits for dependents were lower.<sup>10</sup> Beneficiaries usually receive the same amount each month, boosted by an annual cost-of-living adjustment (COLA) in most years, until they leave the program. In addition, disabled beneficiaries—but not their dependents—are eligible for Medicare, typically after two years in the DI program.

When a delay occurs in the approval of a DI claim, the amount of benefits a person receives over his or her lifetime is not reduced. Payments that would have been received during the application process are provided in a lump sum once a person's application is approved. For many people, however, a long wait for those payments presents a financial hardship.

**Cash Benefits.** A worker's initial DI benefits, like all Social Security benefits, are calculated by applying a

formula to the worker's past earnings. In that calculation, both the formula and the earnings are adjusted for growth in the average amount of earnings in the United States. That initial benefit is typically increased each year by a COLA that is based on changes in the consumer price index for urban wage earners and clerical workers (CPI-W). (The COLA is applied to December benefits, which are sent to recipients in January. It is made on the basis of growth in the CPI-W from the third quarter of the last year for which a nonzero COLA was determined to the third quarter of the current year. If there is no increase in the CPI-W over that period, or if it declines, the COLA is zero. In January 2016, there was no COLA because the CPI-W declined between the third quarter of 2014 and the third quarter of 2015.)

DI benefits are progressive, meaning that the ratio of a worker's benefit payments to his or her past earnings—the replacement rate—declines with earnings. Workers who had higher earnings receive larger benefits than lower earners, but higher earners have a lower replacement rate.<sup>11</sup> For example, a 55-year-old worker who has had earnings equal to the nationwide average (about \$45,000 in 2014) during all of his or her working life and who becomes disabled in 2016 will receive monthly benefits of roughly \$1,700, replacing about 45 percent of those earnings. If that person's earnings had been half as much, the benefit would have been about \$1,100, replacing nearly 60 percent of his or her earnings.

**Medicare Benefits.** After two years of receiving disability benefits, most disabled beneficiaries enroll in Parts A and B of Medicare, which cover services such as hospitalization and outpatient procedures. Disabled beneficiaries, like other Part B enrollees, have to pay premiums for Part B of Medicare. (Disabled beneficiaries with low income may qualify for Medicaid sooner than they could qualify for Medicare if they receive SSI benefits, making them automatically eligible for Medicaid, or if they qualify solely on

8. Social Security Administration, *Agency Financial Report, Fiscal Year 2015*, 31-231 (November 2015), pp. 130–132, [www.ssa.gov/finance](http://www.ssa.gov/finance), and *Performance and Accountability Report, Fiscal Year 2010* (November 2010), p. 53, [www.ssa.gov/finance/fy10\\_accountability.html](http://www.ssa.gov/finance/fy10_accountability.html).

9. Social Security Administration, *Agency Financial Report, Fiscal Year 2015*, 31-231 (November 2015), pp. 130–132, [www.ssa.gov/finance](http://www.ssa.gov/finance).

10. Social Security Administration, "Benefits Paid by Type of Beneficiary," <http://go.usa.gov/chv79> (accessed June 9, 2016).

11. The replacement rate discussed here is relative to a worker's average indexed monthly earnings before taxes. Most recipients do not pay income taxes on DI benefits and no recipients pay payroll taxes on DI benefits, but many recipients pay both payroll and income taxes on their earnings. As a result, after-tax DI benefits are usually higher relative to after-tax earnings (that is, after-tax benefits replace a larger share of after-tax earnings) than before-tax DI benefits are relative to before-tax earnings. Thus, after-tax replacement rates are usually higher than the before-tax rates discussed here.

the basis of low income. And certain disabled beneficiaries are eligible for Medicare in the month that their DI benefits start.) Some beneficiaries also choose to enroll in Part D of Medicare, which covers prescription drugs.

In 2015, total Medicare spending per disabled beneficiary enrolled in that program averaged about \$9,400, CBO estimates.<sup>12</sup> That amount is nearly three-quarters of the DI cash benefits that the average disabled beneficiary received in that year. In 2015, CBO estimates, the federal government spent roughly \$85 billion for Medicare benefits for people who were receiving DI benefits, after taking into account premiums paid by beneficiaries, recoveries of overpayments to providers, and payments by states for a portion of the costs of prescription drugs for low-income beneficiaries.<sup>13</sup>

Historically, eligibility for Medicare has been a substantial benefit of the DI program for many people with disabilities, because they may not have had access to other forms of health insurance. The value of that Medicare benefit to some DI recipients may have diminished since enactment of the Affordable Care Act (ACA), however, which expanded federal subsidies for health insurance to many people with low income.<sup>14</sup>

### Exit From the Program

Between 2010 and 2014, about 8 percent of DI beneficiaries left the program each year. In calendar year 2014, of those disabled beneficiaries who exited the program, 58 percent reached the full retirement age and automatically transferred to Social Security's retirement program, 32 percent died, 9 percent no longer met the definition of disabled used by the program (about half returned to work), and the rest were removed from the program for other reasons.<sup>15</sup>

12. That amount reflects average spending for DI beneficiaries who are enrolled in any part of Medicare.

13. Excluding the cost for those who were institutionalized, Medicare spending for DI beneficiaries in 2015 was about \$80 billion. For additional discussion, see Congressional Budget Office, *Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2016 to 2026* (March 2016), Table 2, [www.cbo.gov/publication/51385](http://www.cbo.gov/publication/51385).

14. As referred to in this report, the Affordable Care Act comprises the Patient Protection and Affordable Care Act (Public Law 111-148); the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152); and the effects of subsequent judicial decisions, statutory changes, and administrative actions.

To determine whether beneficiaries younger than the full retirement age remain eligible for benefits, SSA periodically reexamines cases by conducting continuing disability reviews (CDRs).<sup>16</sup> SSA completed 288,000 full medical CDRs for DI beneficiaries in 2015.<sup>17</sup> The frequency of the reviews varies, depending on a beneficiary's characteristics. Beneficiaries classified as "medical improvement expected" are generally supposed to have a CDR every 6 to 18 months; in contrast, those classified as "medical improvement not expected" are supposed to have one every 5 to 7 years.<sup>18</sup> In 2013, the most recent year for which such data are available, 6 percent of full medical CDRs for DI beneficiaries resulted in a termination of benefits.<sup>19</sup>

Benefits eventually end if a person returns to work and earns more than the program's limit on earnings (the SGA amount)—for most beneficiaries, \$1,130 a month in 2016. To encourage people to return to work, there are exceptions to that limit. For example, disabled beneficiaries who return to work can continue to receive DI payments for nine months no matter how much they earn;

15. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2014*, 13-11826 (November 2015), Tables 49–50, <http://go.usa.gov/ckc6v>.

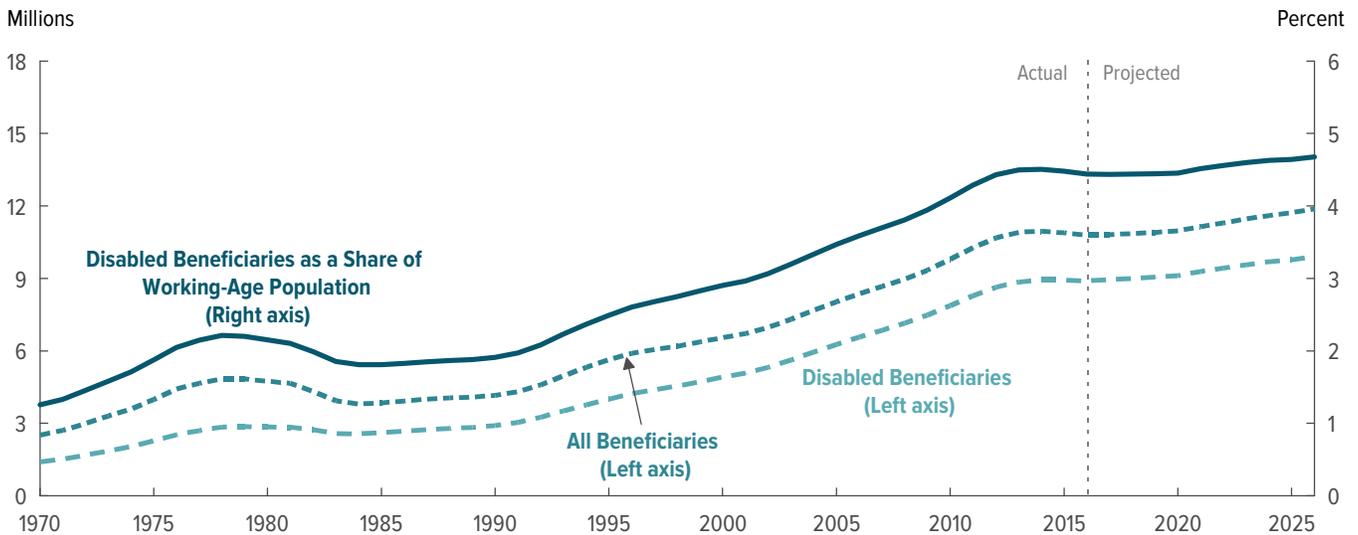
16. Several types of CDRs are performed. Beneficiaries for whom medical improvement is expected are given a *full medical CDR*, which determines whether the beneficiary still meets the program's definition of disabled. Beneficiaries for whom medical improvement is less likely receive *mailer CDRs*—questionnaires that are sent in the mail. Beneficiaries whose responses to mailer CDRs indicate that medical improvement is likely will then be given a full medical CDR. *Work CDRs* determine whether beneficiaries who have returned to work are performing substantial gainful activity and therefore are no longer eligible for disability benefits. See Social Security Administration, Office of the Inspector General, *The Social Security Administration's Completion of Program Integrity Workloads*, A-07-14-24071 (August 2014), p. 2, <http://go.usa.gov/cQpz9> (PDF, 714 KB).

17. Social Security Administration, "Periodic Continuing Disability Reviews (CDRs) Processed" (March 18, 2016), <http://go.usa.gov/chbMA>.

18. Social Security Administration, "DI 28001.020—Frequency of Continuing Disability Reviews (CDRs)," Programs Operations Manual System (June 12, 2015), <http://go.usa.gov/ckjfp>.

19. That number is based on SSA's estimate of the number of terminations after all appeals of initial decisions have been resolved. See Social Security Administration, *Annual Report on Continuing Disability Reviews: Fiscal Year 2013* (September 2015), Appendix A, <http://go.usa.gov/ctzGY> (PDF, 923 KB).

Figure 2.

**Beneficiaries in the Disability Insurance Program, 1970 to 2026**

Sources: Congressional Budget Office; Social Security Administration.

The working-age population is people between age 20 and the full retirement age, currently 66. Disabled beneficiaries receive Disability Insurance benefits based on their own disability and work history; all beneficiaries as a category includes the dependents of those disabled beneficiaries.

for the following 3-year period, they can receive benefits for any month in which their earnings fall below the SGA amount; and for the following 5-year period, they may be able to restart their benefits without reapplying if their earnings fall below the SGA amount, provided they have the same or a related disability.<sup>20</sup>

### Why Has Enrollment in the Disability Insurance Program Grown?

Changes in characteristics of the working-age population, changes in policy, and changes in employment all contributed to the rise in the number of DI beneficiaries in recent decades. In 2015, there were about 10.9 million beneficiaries, roughly four times the number in 1970 (see Figure 2). Disabled beneficiaries as a share of the

working-age population grew from 1.3 percent to 4.5 percent over that period.

### Changes in the Characteristics of the Working-Age Population

The number of DI beneficiaries depends in part on the size and characteristics of the working-age population—that is, people age 20 and older, up to the full retirement age—who are disability insured. In the past several decades, the aging of the workforce and increases in the number of women working have boosted the number of working-age people receiving DI benefits. However, because the baby-boom generation (people born between 1946 and 1964) is now aging out of the DI program and the share of women in the workforce is no longer increasing, DI enrollment is expected to grow relatively slowly in the future. In particular, between 2005 and 2015, the number of DI beneficiaries grew by 3.1 percent per year, on average. That number will grow by an average of 0.8 percent per year over the coming decade, CBO projects.

**Aging of the Workforce.** The aging of the workforce has led to an increase in the share of people who enter the DI program. Older workers are more likely than younger ones to qualify for benefits, for two reasons: More older people suffer from debilitating health conditions;

20. Social Security Administration, *2016 Red Book: A Summary Guide to Employment Supports for Persons With Disabilities Under the Social Security Disability Insurance and Supplemental Security Income Programs*, 64-030 (January 2016), pp. 30–31, [www.ssa.gov/redbook](http://www.ssa.gov/redbook). Although DI beneficiaries may request employment or vocational rehabilitation services, very few do; see David Stapleton and others, *Ticket to Work at the Crossroads: A Solid Foundation With an Uncertain Future* (submitted by Mathematica Policy Research to the Social Security Administration, September 2008), <https://tinyurl.com/horkgdx>.

also, they face less stringent qualification standards because they are assumed to be less able to adapt to new types of work. Among disability-insured people who were not already receiving benefits, about 16 of every 1,000 workers ages 60 to 64 covered by the DI program began receiving DI benefits in calendar year 2014, compared with about 2 of every 1,000 covered workers ages 30 to 34.<sup>21</sup>

However, as the baby-boom generation has begun to reach full retirement age (as it will continue to do through 2031) and members have transferred out of the DI program, growth in the number of people on DI has slowed. That aging of the baby-boom generation is a significant factor in the relatively slow projected growth in the number of DI beneficiaries.

**Increased Employment of Women.** A rise in the number of employed women spurred growth in the disability-insured population and consequently in the number of DI beneficiaries over the past few decades. The disability-insured share of the working-age population expanded from 62 percent in 1970 to 73 percent in 1990 and has stayed at about that level since then.<sup>22</sup> Between 1970 and 2014, the share of working-age women who were insured for disability grew from 41 percent to 71 percent; for men, the share fell from 83 percent to 76 percent.

The increase in the number of women who are employed and the subsequent increase in the share of those who are insured for disability resulted in more disabled beneficiaries and a rise in spending for the DI program. Moreover, the DI incidence rate for women—that is, the share of disability-insured women who were awarded DI benefits—has increased relatively quickly. That rate has historically been much lower than the incidence rate for men but is now almost equal.<sup>23</sup> At the same time, the increase in the number of working women has boosted income for the DI program through the payroll taxes collected on their earnings.

Although there have been large increases in both the share of working-age women who were employed and the DI incidence rate for women since 1970, in recent years those trends have changed. The share of women in the workforce stabilized around 2000, and the DI incidence rate for women peaked in 2010. Those developments have contributed to slower growth in the share (and number) of working-age people receiving DI benefits.

### Changes in Federal Policy

The size and cost of the DI program have mostly been trending upward since 1970, in part because of changes in law. Both increased dramatically during the early and mid-1970s, as lawmakers expanded the eligibility criteria and increased the payments for all beneficiaries. Between 1977 and 1981, in contrast, lawmakers reduced the generosity of payments and tightened eligibility standards; those changes probably accounted for the reduction in the number of DI beneficiaries during that period. In 1984, however, lawmakers expanded the ways in which a person could medically qualify for DI benefits, which led to renewed growth in the program. In 1996, policymakers temporarily boosted spending for CDRs, which helped lower overall spending for the DI program from what it would otherwise have been, because the average reduction in benefits associated with a CDR greatly exceeded the cost of the review itself. Despite that change, annual spending and program participation continued to rise through 2014. (In 2015, both the number of beneficiaries and disabled beneficiaries as a share of the working-age population declined slightly.)

**Changes in Eligibility Criteria.** The Disability Benefits Reform Act of 1984 made several changes to the eligibility criteria for the DI program. Under the legislation, applicants were able to qualify on the basis of the combined effect of multiple medical conditions, each of which might not have met the criteria if considered alone. The legislation also clarified that an individual's statement of pain, while insufficient by itself, could be considered along with other medical evidence to determine that

21. Tim Zayatz, *Social Security Disability Insurance Program Worker Experience, Actuarial Study No. 123* (Social Security Administration, Office of the Chief Actuary, August 2015), Table 4, <http://go.usa.gov/cT63e> (PDF, 765 KB).

22. CBO's calculations based on Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin, 2014*, 13-11700 (April 2015), Table 4.C2, <http://go.usa.gov/cQwax>.

23. Testimony of Stephen Goss, Chief Actuary, Social Security Administration, before the House Committee on Ways and Means, Subcommittee on Social Security (March 14, 2013), Figure 8, [www.ssa.gov/legislation/testimony\\_031413a.html](http://www.ssa.gov/legislation/testimony_031413a.html); and Tim Zayatz, *Social Security Disability Insurance Program Worker Experience, Actuarial Study No. 123* (Social Security Administration, Office of the Chief Actuary, August 2015), Table 4, <http://go.usa.gov/cT63e> (PDF, 765 KB).

person's eligibility for benefits. Furthermore, the legislation mandated that SSA revise its disability standards for individuals with mental disorders to put a greater weight on how a person's condition affects the tasks he or she is able to perform.<sup>24</sup>

The changing of the eligibility criteria has contributed to a shift in the prevalence of the disabilities for which beneficiaries qualify. For example, the share of disabled beneficiaries with mental or musculoskeletal disorders has increased in recent decades, from 30 percent of new awards in 1983 (the last year before the legislation was enacted) to more than 50 percent in 2014.<sup>25</sup> That shift in the types of covered disabilities probably contributed to the decline in the average mortality rate of DI beneficiaries, because the mortality rate for people with mental and musculoskeletal disorders tends to be lower than that for people with other common disorders.<sup>26</sup>

Enrollment in the DI program has also been boosted by the rise in the full retirement age for Social Security. Between 2002 and 2009, the age at which DI beneficiaries transferred to the retirement program rose from 65 to 66. That rise has had two main effects on the DI program: It has enlarged the potential pool of DI applicants by making more workers who are older but have not yet reached their full retirement age eligible for DI, and it has increased the length of time people spend receiving DI benefits. That is because disabled beneficiaries now shift to the Social Security retirement program later than they did in previous years. (In addition, the rise in the full

retirement age has boosted income 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.) The age at which DI beneficiaries transfer to the retirement program is scheduled to rise further—to age 67—by 2027.

**Changes in the Frequency of Continuing Disability Reviews.** By determining whether (and to what extent) beneficiaries remain eligible for benefits, CDRs tend to reduce the number of DI beneficiaries and thus spending on the program. Yet in many cases, the DI program does not carry out the targeted number of CDRs because, according to SSA, it does not have the staffing or funding to do so.<sup>27</sup> Consequently, a large backlog of CDRs often has accrued.

CDRs are usually funded out of SSA's general administrative funding but have sometimes received specific appropriations to reduce the backlog. For example, in 1996, lawmakers provided \$4 billion (in nominal dollars) in additional funding for CDRs to reduce a backlog of more than 4 million full medical CDRs. (The CDR backlog includes CDRs for both the DI and the SSI programs.) The backlog was eliminated by the end of 2000, but the higher funding amount was not maintained. Between 2003 and 2009, the backlog increased to about 1.5 million full medical CDRs.<sup>28</sup> In 2009, SSA again began receiving additional funding, and the backlog has declined by about half—to 726,000 as of September 2015.<sup>29</sup>

### Changes in Employment

An important determinant of whether (and when) people apply for DI benefits is how those benefits compare with the opportunities for employment and the earnings and benefits (for instance, health insurance) associated with working.

**Availability of Jobs.** When opportunities for employment are plentiful, some people who could qualify for DI

24. Frank S. Bloch, "Medical Proof, Social Policy, and Social Security's Medically Centered Definition of Disability," *Cornell Law Review*, vol. 92 (2006–2007), pp. 189–234, <https://tinyurl.com/gnhxv77>; 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, <http://dx.doi.org/10.1257/jep.20.3.71>; and Tim Zayatz, *Social Security Disability Insurance Program Worker Experience, Actuarial Study No. 123* (Social Security Administration, Office of the Chief Actuary, August 2015), <http://go.usa.gov/cT63e> (PDF, 765 KB).

25. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2014*, 13-11826 (November 2015), Table 40, <http://go.usa.gov/ckc6v> (PDF, 1.5 MB). For details about musculoskeletal disorders, see Social Security Administration, "Disability Evaluation Under Social Security: 1.00 Musculoskeletal System—Adult" (accessed March 30, 2016), <http://go.usa.gov/3zAqx>.

26. Jeffrey B. Liebman, "Understanding the Increase in Disability Insurance Benefit Receipt in the United States [Corrected Version]," *Journal of Economic Perspectives*, vol. 29, no. 2 (Spring 2015), p. 144, <http://dx.doi.org/10.1257/jep.29.2.123>.

27. Social Security Administration, Office of the Inspector General, *The Social Security Administration's Completion of Program Integrity Workloads*, A-07-14-24071 (August 2014), p. 8, <http://go.usa.gov/cQpz9> (PDF, 714 KB).

28. Ibid.

29. Social Security Administration, Office of the Inspector General, *Fiscal Year 2015 Inspector General Statement on the Social Security Administration's Major Management and Performance Challenges*, A-02-16-50118 (November 2015), p. 6, <http://go.usa.gov/cksne> (PDF, 1.2 MB).

benefits find working more attractive. Conversely, when employment opportunities are scarce, some of those people apply to the DI program instead of looking for work.

Applications to the DI program increased during and immediately following the recessions that occurred in the early 1990s, in 2001, and from 2007 to 2009. For example, the number of applications to the program averaged 2.8 million per year between calendar years 2009 and 2013, up from an average of 2.2 million per year during the previous five years. During and following those recessions, however, the average award rate—the share of resolved applications that resulted in the awarding of DI benefits—declined in most years.<sup>30</sup> That was probably because those applicants were less likely to have had disabilities that qualified them for the program. The number of DI awards fell to prerecession levels in 2014, five years after the end of the most recent recession, partially because some people applied for DI benefits sooner than they otherwise would have.<sup>31</sup> CBO projects that the number of DI awards will increase, in part because of population growth.

Despite the lower award rates, the total number of beneficiaries increased during those recessions, and it generally tended to continue to increase even after the economy began to recover.<sup>32</sup> That is because many people who have been out of the labor force for extended periods find it difficult to return to work, and new beneficiaries rarely leave the DI program to return to work even when the economy improves.

**Value of DI Benefits Relative to Earnings.** For less-skilled workers, the value of DI benefits relative to their earnings has been steadily rising. That is because the amount of DI benefits a disabled worker initially receives is tied to the growth in average earnings economywide. Over the past few decades, the growth in economywide average earnings has exceeded the growth in earnings for less-skilled workers. As a result, the initial DI benefits for less-skilled workers have grown faster than did the earnings they would have received by remaining in

the workforce. That circumstance probably has increased the number of DI applicants from that group.<sup>33</sup>

**Availability of Health Insurance.** In past years, the availability of Medicare to participants in DI (after a waiting period) has encouraged some people to apply for DI benefits, because many people with disabilities did not have access to health insurance coverage otherwise.<sup>34</sup> Nonworking adults with disabilities frequently lack access to employment-based coverage and, until recently, would not have had many other options for health insurance. Before 2014, most states allowed insurers selling coverage in the individual market to turn down applicants with high health care costs, and Medicaid eligibility for childless adults was generally very limited unless they qualified for SSI.

Starting in 2014, the ACA provided more options for people with disabilities to obtain insurance, but the net effect of those options on DI applications is not clear. Some provisions of the ACA that make it easier for people to obtain insurance from other sources may lessen the appeal that eventual Medicare eligibility under the DI program held in the past. However, easier access to health insurance that is not provided through one's employer may also cause more people to stop working and apply for benefits through the DI program.<sup>35</sup>

### Why Has Spending per Beneficiary Grown?

Excluding the effects of inflation, average DI benefits per person in the program rose by about 2 percent a year, on average, between 1970 and 2015—more than doubling from \$5,100 to \$12,200 (measured in 2015 dollars; see Figure 3).<sup>36</sup> (Over the next 10 years, under current law, that amount would grow more slowly, at an average rate

30. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2014*, 13-11826 (November 2015), Table 60, <http://go.usa.gov/ckc6v> (PDF, 1.5 MB).

31. Ibid.

32. The recessions of the early 1980s were not associated with an increase in the number of beneficiaries. However, the 1980 legislation that constrained growth in the DI program had just been implemented, so the effects of those recessions may not have been fully apparent.

33. 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, <http://dx.doi.org/10.1257/jep.20.3.71>.

34. Alice R. Levy, Brian K. Bruen, and Leighton C. Ku, "The Potential Employment Impact of Health Reform on Working-Age Adults With Disabilities," *Journal of Disability Policy Studies*, vol. 24, no. 2 (September 2013), pp. 102–112, <http://dx.doi.org/10.1177/1044207312446225>.

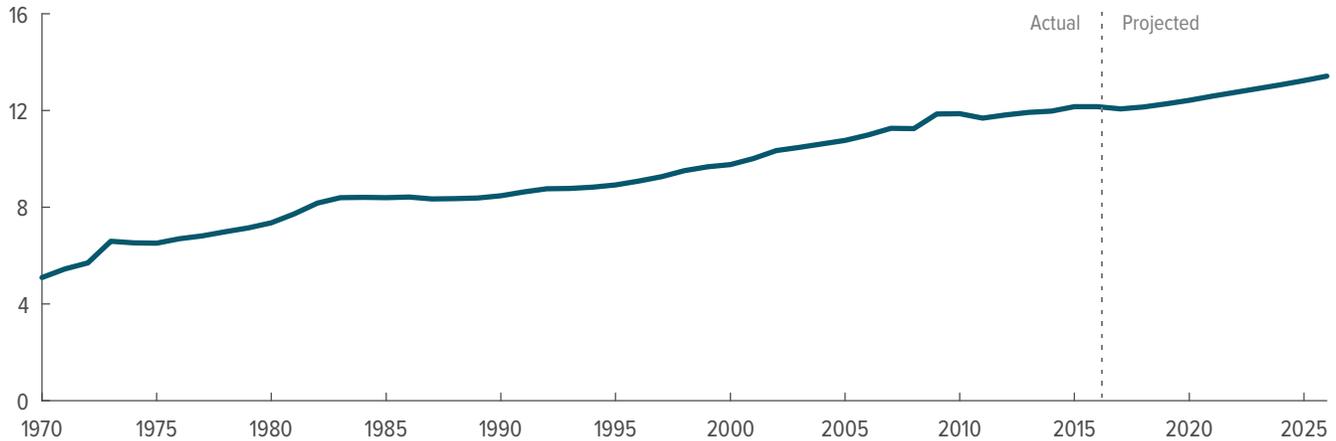
35. Nicole Maestas, Kathleen J. Mullen, and Alexander Strand, *Effects of Health Care Reform on Disability Insurance Claiming*, RB-9769 (RAND Corporation, 2014), [www.rand.org/pubs/research\\_briefs/RB9769.html](http://www.rand.org/pubs/research_briefs/RB9769.html).

36. As calculated here, average annual benefits are spending on current benefits divided by the number of beneficiaries. Current benefits exclude retroactive benefits—those that are paid out in a lump sum to account for the lag between an application and the awarding of benefits.

Figure 3.

**Average Annual Benefits in the Disability Insurance Program, 1970 to 2026**

Thousands of 2015 Dollars



Sources: Congressional Budget Office; Social Security Administration.

As calculated here, average annual benefits are spending on current benefits divided by the number of beneficiaries. Current benefits exclude retroactive benefits—those that are paid out in a lump sum to account for the lag between an application and the awarding of benefits. Amounts are adjusted for inflation by using the price index for personal consumption expenditures.

of 0.9 percent per year, to \$13,400, CBO projects.)<sup>37</sup> Legislated changes to the formula used to compute benefits and growth in real (inflation-adjusted) earnings contributed to that increase in spending in recent decades.

Changes in the formula used to calculate benefits accounted for much of the growth in spending per beneficiary, after adjusting for changes in prices, between 1970 and 1990. Much of that growth occurred in the 1970s and stemmed from a series of benefit increases in the early 1970s and subsequent automatic adjustments to benefits for increases in prices that began in 1975.<sup>38</sup>

Growth in real earnings has been a major factor in the increase in spending per beneficiary since around 1990. Between 1990 and the recession that began in 2007, average earnings grew by approximately 34 percent (excluding the effects of inflation), or at an annual rate that was roughly double the rate of the previous two decades. During that time of rapid growth in real earnings, the average monthly DI benefit for new

beneficiaries also grew substantially, and spending per beneficiary, including spending on people who were not new to the program, increased by about 30 percent (excluding the effects of inflation).

### What Are Some Possible Approaches to Changing the Disability Insurance Program?

Over the coming decade, CBO projects, the DI caseload will grow more slowly than it did in the years before the most recent recession, primarily because the economy is expected to continue to expand (increasing employment opportunities) and because more people will be reaching the age at which they qualify for old-age benefits rather than disability benefits.<sup>39</sup> Nevertheless, under current law, the DI trust fund would be exhausted in 2022, CBO projects (see Figure 1 on page 2).<sup>40</sup> If the trust fund's

37. Total spending on benefits, including both current and retroactive benefit payments, is projected to grow at an average rate of 1.9 percent per year, excluding the effects of inflation.

38. See Social Security Administration, *Trends in the Social Security and Supplemental Security Income Disability Programs*, 13-11831 (August 2006), pp. 17–18, <http://go.usa.gov/chjTR>.

39. For additional information about CBO's projections, see Congressional Budget Office, *Social Security Disability Insurance—CBO's March 2016 Baseline* (March 2016), [www.cbo.gov/publication/43888](http://www.cbo.gov/publication/43888).

40. CBO previously had projected that the DI trust fund would be exhausted sooner. However, the Bipartisan Budget Act of 2015 revised the allocation of the payroll tax between the DI and OASI programs, granting a larger share to the DI trust fund for calendar years 2016 through 2018 and reducing by an equal amount the share allocated to the OASI trust fund for those years. That adjustment pushed back the projected exhaustion date of the DI trust fund.

balance declined to zero and current income was insufficient to cover benefits specified in law, SSA would no longer be permitted to pay full benefits when they were due. In the years after the trust fund's exhaustion, annual outlays could not exceed annual income: Under those circumstances, all income to the trust fund would be used, and the trust fund's balance would remain essentially at zero. Legislative action would be necessary to avoid a significant drop in the amount of benefits paid. To delay or prevent the exhaustion of the trust fund, lawmakers would need to address the fiscal imbalance by increasing income to the trust fund, by reducing spending in the program, or by doing both.<sup>41</sup>

### Approaches for Increasing Income to the Program's Trust Fund

To increase income for the DI program, policymakers could raise taxes dedicated to the DI trust fund. That could be done by increasing the rate of the payroll tax that funds the DI program, for example, or by raising or eliminating the maximum amount of income that is subject to that tax. Policymakers could also choose to redirect a portion of the payroll tax dedicated to the OASI trust fund to the DI trust fund, as was done by the Bipartisan Budget Act of 2015. However, redirecting resources in that way would advance the date at which the OASI trust fund would be exhausted (now 2030, CBO projects).

### Approaches for Reducing Spending

To reduce spending in the DI program, policymakers could decrease the number of people in the program or lessen the benefits they receive. The effects of those approaches on DI spending would vary widely, depending on the way in which the changes were structured.

**Decreasing the Number of Beneficiaries.** To decrease the number of beneficiaries, policymakers could reduce the number of people entering the program, increase the number of people exiting the program, or implement some combination of the two approaches. Policies aiming to reduce entry into the DI program could directly affect

workers likely to apply for DI benefits or could provide incentives for employers or state governments to reduce the number of applicants to the DI program.

Two types of policies that would directly affect whether workers enter the DI program are those that would reduce the number of workers who apply and those that would reduce the share of applicants who are awarded benefits. To reduce the number of workers who apply for DI benefits, the government could establish early intervention programs that would help workers in various ways. Though such programs would probably boost spending initially, they might reduce spending on benefits in the long run. To reduce the share of applicants who are awarded benefits, policymakers could implement stricter definitions of work-limiting disabilities. Those stricter definitions would cause fewer applicants to be awarded benefits and also would probably discourage some workers from applying.

Alternatively, policymakers could provide incentives for employers to offer additional support to people with disabilities (beyond the support mandated by the Americans with Disabilities Act), thereby discouraging workers from applying for disability benefits. For example, employers could be required to provide private disability insurance for their employees for a certain length of time, during which the employee could not simultaneously receive federal DI benefits. Or employers could be charged by the government when their employees enroll in the DI program, thus encouraging employers to retain their disabled employees.

Additionally, policymakers could reduce states' incentives to encourage people to apply for DI benefits. States may encourage people to enroll in the DI program to shift some costs for cash assistance and health care from the states to the federal government. For example, funding for Temporary Assistance for Needy Families (TANF), initially set in 1996, was not increased subsequently to keep up with inflation or population growth. That reduction in the inflation-adjusted amount of TANF funding probably increased the incentives for states to direct people toward DI. Changes to formulas for federal funding could alter those incentives.

To increase the number of people exiting the DI program, policymakers could increase the number of CDRs. Providing additional funding for that purpose would

41. For further discussion of Social Security's financing and trust funds, as well as related policy options, see Congressional Budget Office, *Social Security Policy Options, 2015* (December 2015), [www.cbo.gov/publication/51011](http://www.cbo.gov/publication/51011). For an earlier discussion of possible options for changing the DI program, see Congressional Budget Office, *Policy Options for the Social Security Disability Insurance Program* (July 2012), [www.cbo.gov/publication/43421](http://www.cbo.gov/publication/43421).

cause DI beneficiaries who no longer met the eligibility standards to be removed from the program sooner.

**Decreasing Spending per Beneficiary.** To lessen benefits for people in the program, policymakers could reduce the benefit amounts for new beneficiaries by a certain percentage or link the initial benefit amounts to a measure of past earnings adjusted by average prices rather than by average wages. (In recent decades, wages have increased substantially faster than prices.)

Changes made with the intent of lowering the DI program's spending might have other consequences for the federal budget. For example, if lawmakers provided substantially smaller benefits in the DI program, spending for SSI might increase. Similarly, an early intervention program might reduce spending for DI benefits but raise costs to the federal government overall, because such an option would result in some spending for interventions directed toward people who would not have applied for DI benefits in any case.

## About This Document

This Congressional Budget Office report was prepared at the request of the Chairman of the Senate Committee on Finance. It updates earlier work, *Social Security Disability Insurance: Participation Trends and Their Fiscal Implications* (July 2010), [www.cbo.gov/publication/21638](http://www.cbo.gov/publication/21638). In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

David Burk wrote the report, with guidance from Molly Dahl and Joseph Kile. Jessica Banthin, Elizabeth Bass, Linda Bilheimer, Alice Burns, Sheila Dacey, Philip Ellis, Heidi Golding, Lori Housman, Chung Kim (formerly of CBO), Marina Kutuyavina, Sarah Masi, Noah Meyerson, Lucille Msall, Sam Papenfuss, Chayim Rosito, John Seliski, Michael Simpson, Naveen Singhal, Emily Stern, Robert Stewart, Julie Topoleski, and Rebecca Yip provided comments.

Jeffrey Kling and Robert Sunshine reviewed the report, Christine Bogusz edited it, and Maureen Costantino and Jeanine Rees prepared it for publication. An electronic version is available on CBO's website ([www.cbo.gov/publication/51443](http://www.cbo.gov/publication/51443)).



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June 2016