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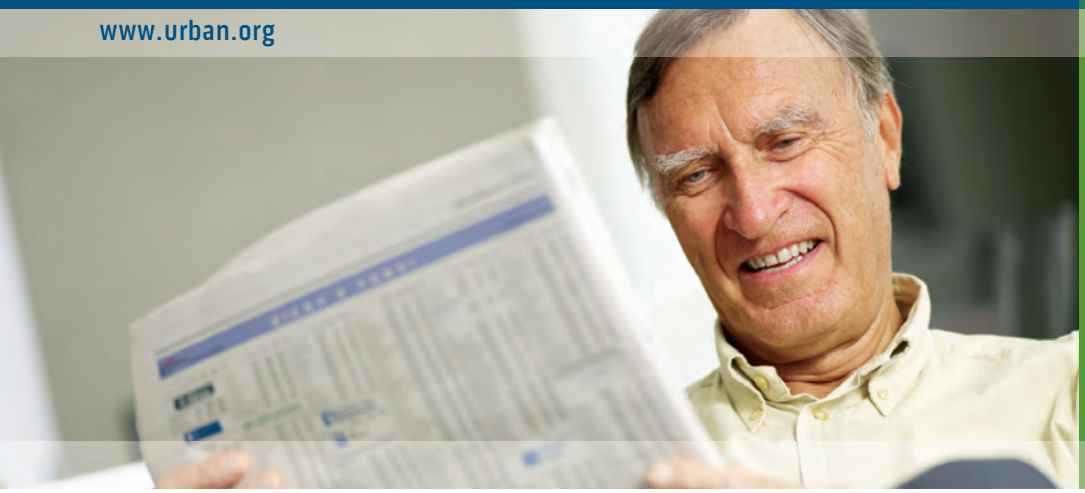


INSIDE THIS ISSUE

- Efforts to address SSDI's long-term financing deficit must recognize the crucial role it plays in supporting vulnerable Americans with disabilities.
- Nearly half of DI beneficiaries rely on it for at least half of their family income.
- A fifth of beneficiaries rely on it for almost all their income.

How Important Is Social Security Disability Insurance to U.S. Workers?

Melissa M. Favreault, Richard W. Johnson, and Karen E. Smith

Like the rest of the Social Security system, Disability Insurance (DI) faces a long-term deficit that has prompted calls for changing the way benefits are paid and financed.[1] As Social Security reform efforts accelerate, it is important to bear in mind that DI provides a crucial lifeline for some of the nation's most vulnerable citizens. The nation's largest income support program for working-age adults with disabilities, DI paid benefits in April 2013 to 8.9 million workers and another 2.1 million dependents (Social Security Administration [SSA] 2013b).

This brief highlights the role that DI plays in the economic lives of adults with disabilities and their families. It reports the prevalence of DI benefits, benefit amounts, the share of predisability earnings replaced by DI benefits, and family incomes and poverty rates for beneficiaries. Comparisons with nonbeneficiaries are generally made separately for younger and older adults, because DI beneficiaries tend to be older than the general population and incomes generally increase with age. The data come primarily from administrative records and household surveys, as described in the appendix. Most results are for 2010, the most recent year available.

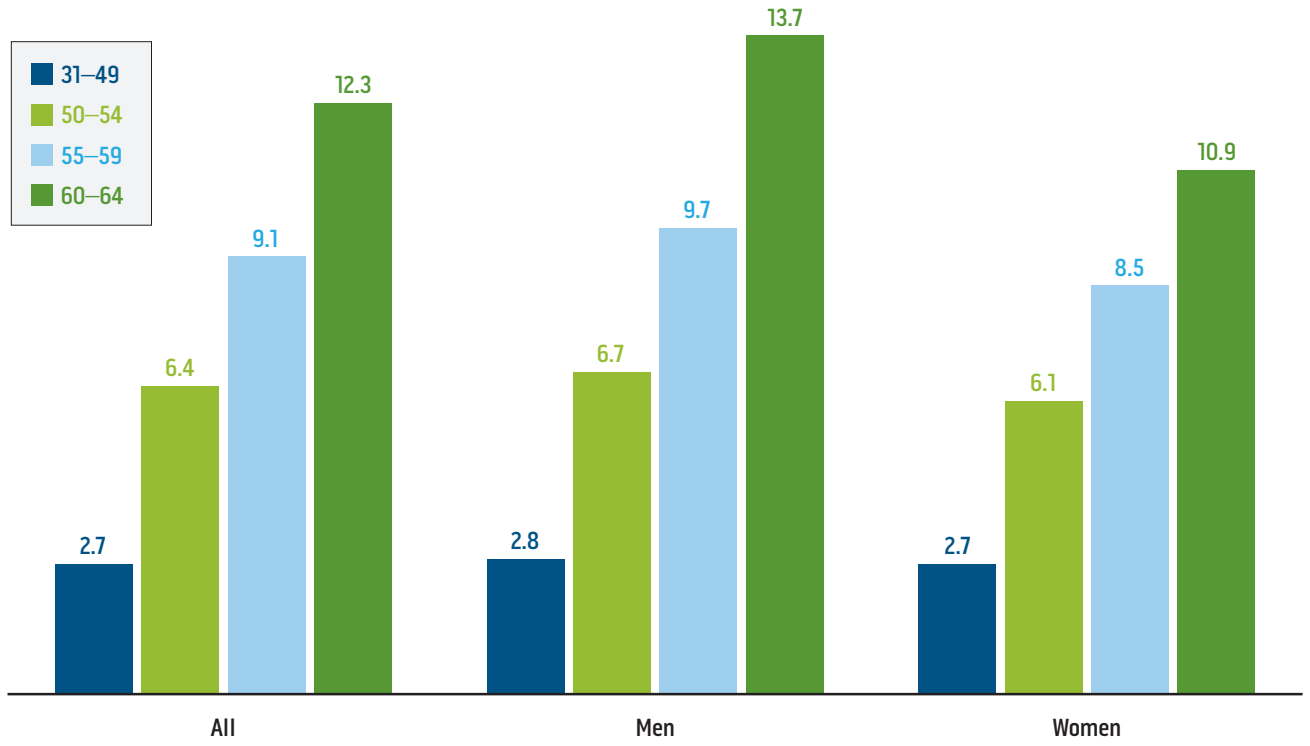
We find that DI payments account for the majority of family income for nearly half of all beneficiaries and more than two-thirds of unmarried beneficiaries. However, benefit checks are modest and, on average, replace no more than half of what beneficiaries earned before they entered the program. As a result, family incomes for most beneficiaries fall well below the average for nondisabled Americans. Many DI beneficiaries live in poverty.

How DI Works

DI benefits are available to insured workers with severe disabilities. Workers are insured only if they have worked in Social Security–covered jobs long enough—about 10 years for most adults, but fewer years for younger workers—and recently enough—with earnings received in about 5 of the past 10 years. About four-fifths (79 percent) of adults ages 25 to 59 were insured by DI in

As Social Security reform efforts accelerate, it is important to bear in mind that DI provides a crucial lifeline for some of the nation's most vulnerable citizens.

Figure 1. Prevalence of DI Receipt by Age and Sex, 2010 (%)



Source: Authors' calculations from MINT7.
Note: Estimates are restricted to adults ages 31 to 64.

2011.[2] Insured workers may file for benefits if they have a medically determinable physical or mental impairment expected to last at least a year or result in death that prevents them from engaging in "substantial gainful activity."[3] Applicants must demonstrate that they are unable to engage in any meaningful paid work given their education and experience, not merely the type of work they did before their disability began. Musculoskeletal and mental disorders are the two most common impairments among DI beneficiaries, accounting for half of all awards in 2009 (Zayatz 2011).

DI benefits are paid according to Social Security's progressive benefit formula, which replaces a higher share of earnings for those with lower average indexed monthly earnings than for those with higher earnings.[4] Spouses and children may also qualify for benefits, although there is a cap on how much the family can receive. Cash benefits, for both workers and dependents, may not begin until five months after disability onset. DI beneficiaries are also eligible for Medicare health benefits after a two-year waiting period from the date of entitlement.

Benefits are financed by a 0.9 percent payroll tax on covered earnings levied on both employers and employees.[5] Only earnings below a specified ceiling, which changes with the average national wage and is set at $113,700 in 2013, are taxed. Tax revenues are deposited into the DI trust fund and used to pay benefits. When beneficiaries reach their full retirement age—66 for those now entering retirement but slated to increase to 67 for those born in 1960 and later—DI benefits convert to retired worker benefits and are then paid from Social Security's retirement and survivors' trust fund rather than the DI trust fund.

Prevalence of DI Benefit Receipt

The likelihood of receiving DI benefits increases sharply with age because health problems generally intensify as people grow older. In 2010, 12.3 percent of adults ages 60 to 64 collected DI benefits, compared with 9.1 percent of those ages 55 to 59, 6.4 percent of those ages 50 to 54, and 2.7 percent of those ages 31 to 49 (figure 1). Men were more likely to collect DI benefits than women, primarily because men tended to work more overall,

and thus were more likely to become insured. At ages 60 to 64, for example, 13.7 percent of men collected DI benefits, compared with 10.9 percent of women. However, the gender gap is shrinking as women amass longer and more consistent work histories, boosting their chances of becoming insured. In 2010, DI receipt rates were similar for men and women ages 31 to 49.

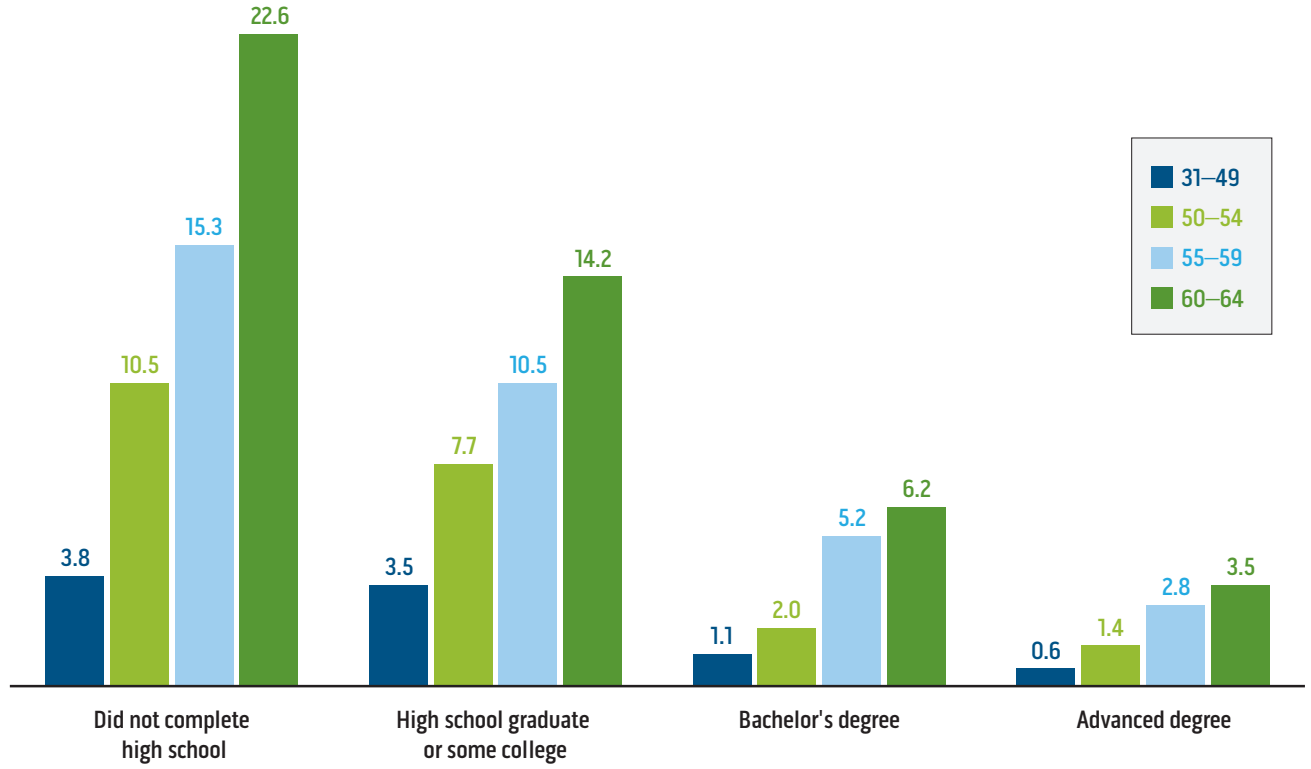
Workers with limited education are much more likely to receive DI benefits than their better-educated counterparts (figure 2). At ages 60 to 64, for example, almost a quarter (22.6 percent) of adults who did not complete high school collected DI benefits, compared with 6.2 percent of college graduates and 3.5 percent of those with advanced degrees. Adults with relatively little schooling tend to have more health problems than college graduates. They are also more likely to work at highly physically demanding jobs, and thus less likely to remain in the labor force after they develop disabilities. DI's disability screen, in fact, explicitly accounts for the applicant's education, recognizing that less-educated workers with health problems have more limited employment prospects than their better-educated counterparts (Code of Federal Regulations 2012; Hu et al. 2001).

DI prevalence also varies markedly by race, with non-Hispanic African Americans about 1.5 times to twice as likely to collect benefits as non-Hispanic whites of the same age. Hispanics are less likely than non-Hispanic whites to collect benefits at young ages, but more likely to collect at older ages. This gap largely reflects differences between the groups in other characteristics that affect disability and benefit receipt, such as education, health status, and nativity.[6] (Foreign-born workers are less likely to receive DI than native-born workers.)

DI Benefit Amounts

In December 2011, monthly DI benefits averaged $1,399 for men and $1,078 for women (SSA 2013a). However, benefit amounts varied widely, and many beneficiaries received significantly lower payments. Overall, slightly more than half of all beneficiaries received no more than $1,050 per month. About half of women received monthly benefits of no more than $900, while about half of men received monthly benefits that did not exceed $1,200. About a

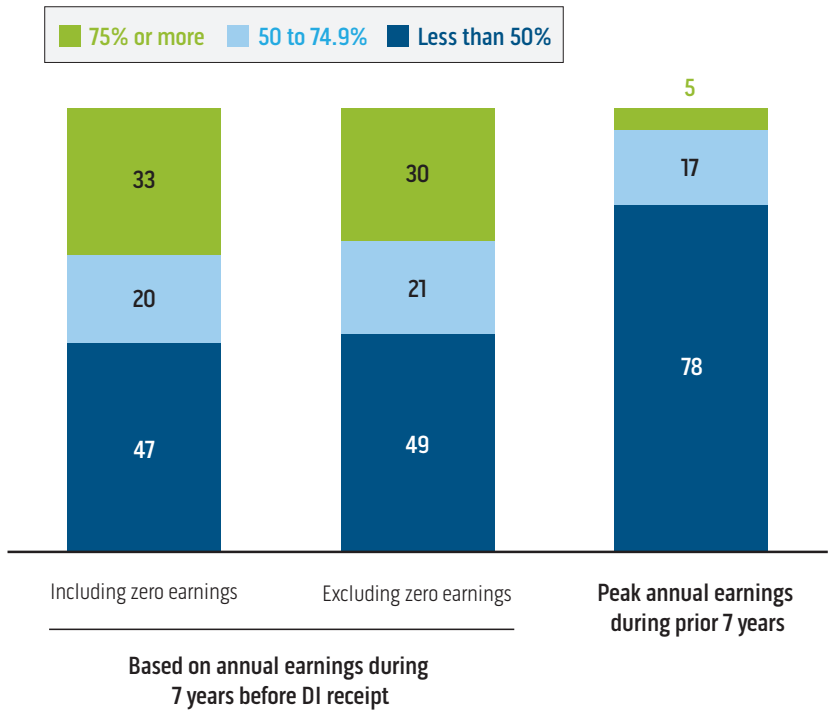
Figure 2. Prevalence of DI Receipt by Age and Education, 2010 (%)



Source: Authors' calculations from MINT7.

Note: Estimates are restricted to adults ages 31 to 64.

Figure 3. DI Benefits Relative to Predisability Earnings by Earnings Base, 2010 (%)



Source: Authors' calculations from MINT7.
Note: Estimates are restricted to adults ages 31 to 64.

Table 1. Mean Per Capita Family Income by Age and DI Beneficiary Status, 2010

	AGES 31–49		AGES 60–64	
	DI	Non-DI	DI	Non-DI
Earnings	$7,460	$37,550	$5,250	$29,000
Social Security benefits	$8,130	$130	$11,750	$4,290
Pension and asset income	$1,500	$2,540	$8,290	$15,170
Other transfer income	$1,920	$1,380	$3,710	$1,830
Average pretax income	$19,040	$41,550	$28,960	$50,300
Taxes (state, federal, payroll)	$1,210	$6,880	$1,880	$7,960
Average posttax income	$17,830	$34,670	$27,080	$42,340

Source: Authors' calculations from MINT7.
Note: The sample excludes those in the top 5 percent of the wealth distribution, to reduce the impact of outliers on the estimates. Components do not sum to totals because of rounding.

quarter of women received $700 per month or less, while about a quarter of men received $850 per month or less. At the other extreme, 2 percent of women and 9 percent of men received benefits in excess of $2,000 per month (SSA 2013a, table 5.D2).

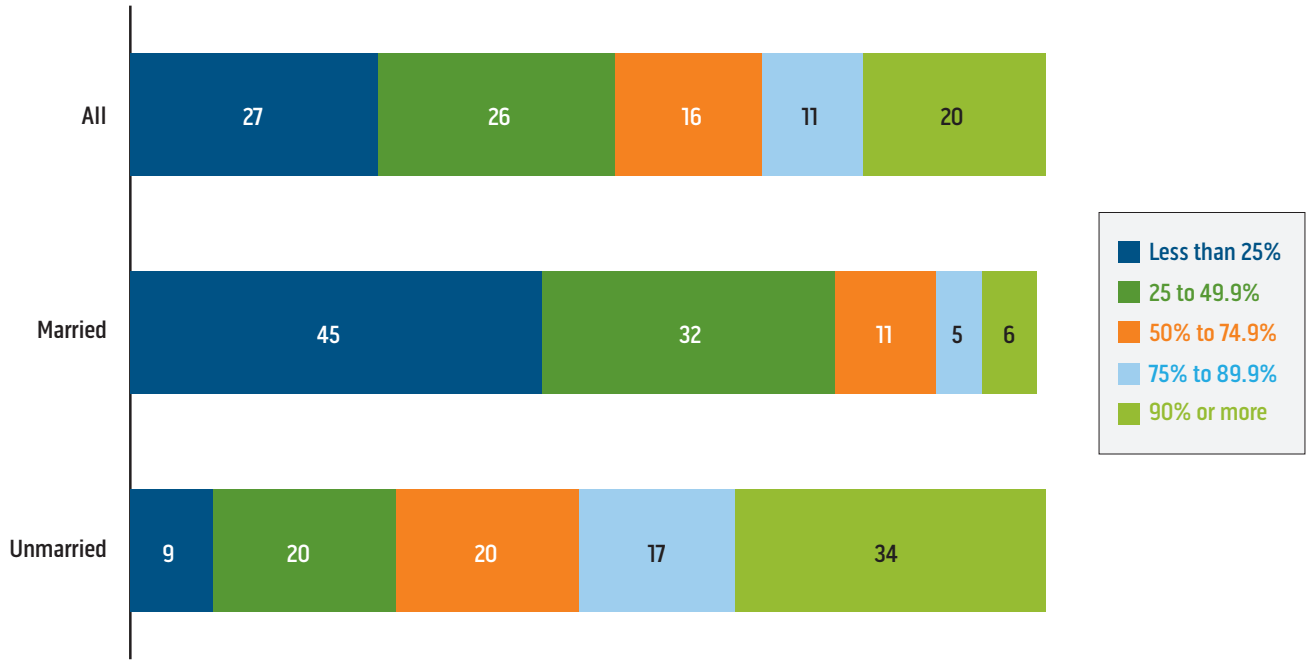
For most, DI benefits fall well short of the earnings they received before they became disabled. Comparing benefits to earnings is somewhat complicated because earnings often fall gradually as health deteriorates, so it is not clear which predisability earnings we should measure. Figure 3 reports how the share of earnings replaced by DI benefits varies under three alternative definitions of the predisability earnings base. When we used average annual earnings received five to seven years before DI receipt, benefits replaced less than half of earnings for nearly half (47 percent) of beneficiaries. Only a third of beneficiaries received DI payments that replaced 75 percent or more of their earnings. Replacement rates were somewhat lower when we excluded years with zero earnings from the average of predisability earnings.

Replacement rates were dramatically lower, however, when we compared DI payments to peak annual earnings received during the seven years prior to benefit receipt, which likely approximated the amount beneficiaries might have earned had they not experienced health problems. Under that definition of the earnings base, benefits replaced less than half of predisability earnings for more than three-quarters (78 percent) of beneficiaries. Only 5 percent received benefits that replaced 75 percent or more of earnings.

Family Incomes for DI Beneficiaries

DI beneficiaries depend on program payments for much of their income. Those payments accounted for at least half of total family income for nearly half (47 percent) of adults receiving DI benefits in 2010 (figure

Figure 4. Share of Total Family Income From DI by Marital Status, Beneficiaries Ages 31 to 64, 2010 (%)



Source: Authors' calculations from MINT7.
Note: Estimates do not always sum to 100 percent because of rounding.

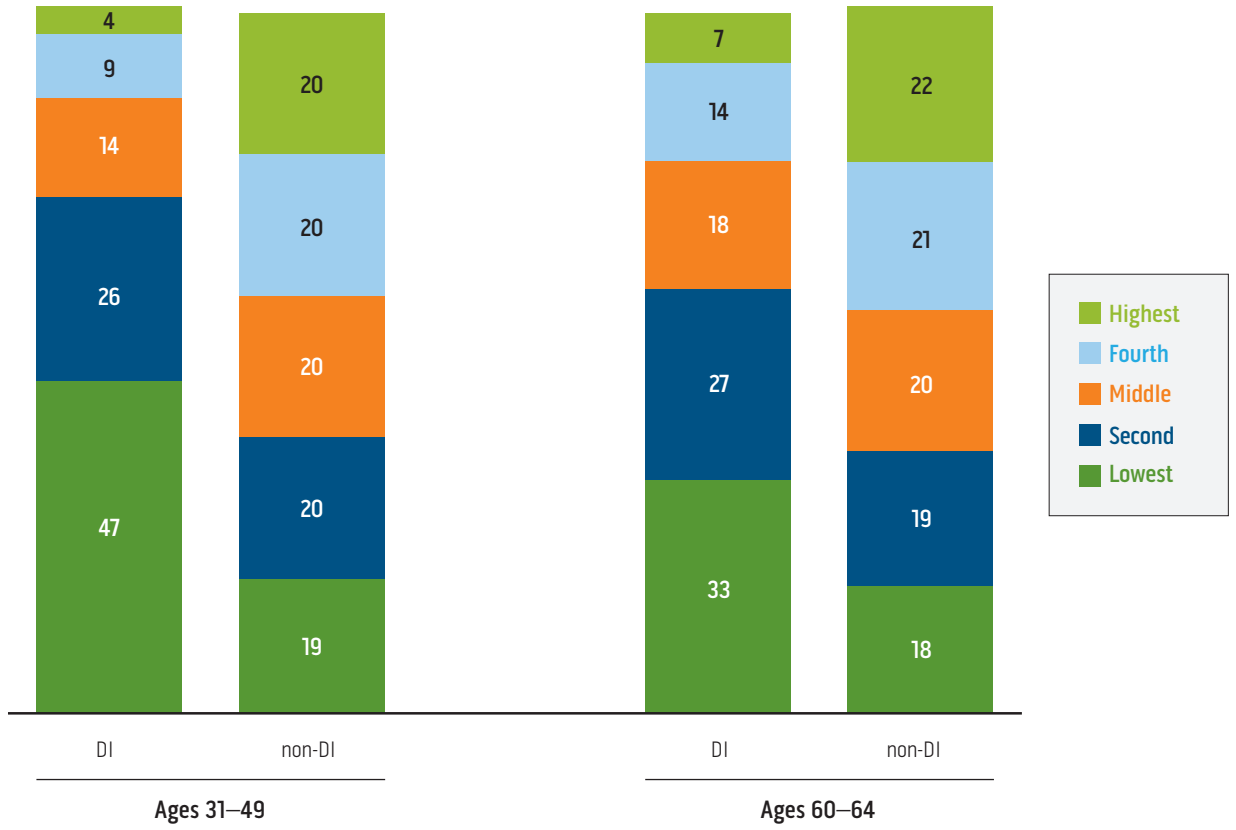
4). A fifth of all beneficiaries relied on DI benefits for nearly all (90 percent or more) of their incomes. Unmarried beneficiaries, who made up just under half (48 percent) of the beneficiary population ages 31 to 64, depended much more on the program than their married counterparts, many of whom counted on spousal earnings for additional financial support. DI benefits accounted for at least half of family income for 71 percent of unmarried beneficiaries, and for at least nine-tenths of income for 34 percent of unmarried beneficiaries.

How do DI beneficiaries fare financially compared with those who do not receive DI? Table 1 reports the level and composition of per capita household income for the two groups. We looked separately at younger beneficiaries (ages 31 to 49) and older beneficiaries (ages 60 to 64), and considered tax liabilities as well as income sources. To reduce the influence of asset income received by very wealthy individuals, which can distort average incomes, we excluded the top 5 percent of the wealth distribution from our estimates.[7]

DI beneficiaries have much lower average per capita family incomes than nonbeneficiaries. Individuals receiving DI benefits in 2010 had less than half (46 percent) the average pretax income of nonbeneficiaries at younger ages, and 58 percent of the pretax average at older ages. Income composition also differed markedly, with DI beneficiary families on average receiving the largest share of their income from program benefits, and nonbeneficiary families receiving most of their income from earnings. (Many DI beneficiary families also had significant earnings, usually from the beneficiary's spouse.) Nonbeneficiaries received more pension and asset income, whereas DI beneficiaries received higher average cash benefits from transfer programs other than DI, including other disability-related programs. Neither group, however, received a large share of income from transfer programs. Taxes narrowed the gap between these groups, as non-DI beneficiaries paid more in tax in both absolute and percentage terms than counterparts not receiving DI. After taxes, the younger DI beneficiaries received about half as much income as nonbeneficiaries, on average, while older beneficiaries received about three-fifths as much.

Another way to look at income distribution is to rank the population from lowest to

Figure 5. Income Distribution by DI Beneficiary Status and Age, 2010 (%)



Source: Authors' calculations from MINT7.
Note: Income quintiles are defined separately for each age group. Estimates do not always sum to 100 percent because of rounding.

highest incomes and then divide it into five equally sized groups, known as quintiles. DI beneficiaries are disproportionately low income. In 2010, just less than half (47 percent) of those ages 31 to 49 and about a third (33 percent) of those ages 60 to 64 fell into the bottom income quintile (figure 5).[8] DI beneficiaries were unlikely to be in the top quintile, which included only 4 percent of those ages 31 to 49 and 7 percent of those ages 61 to 64.

Family Wealth

Wealth is another important component of economic well-being. It provides families with the means to invest in their futures, such as by purchasing homes or attending college. It also provides an economic cushion when expenses rise or incomes fall unexpectedly. Figure 6 compares wealth for DI beneficiaries and nonbeneficiaries. It reports median housing and nonhousing wealth for those ages 31 to 49 and 60 to 64 in each group.[9]

As with incomes, DI beneficiaries have much less wealth than other Americans. They are less likely to own homes, and when they do, their home equity is substantially lower. Nonhousing wealth is also much lower for DI beneficiaries. In 2010, half of those ages 31 to 49 held less than $750 in nonhousing wealth, providing virtually no protection against unexpected expenses and virtually no opportunity to invest in the future. Even at ages 60 to 64, when wealth peaks for most Americans, half of DI beneficiaries held less than about $7,750 in nonhousing wealth. This wealth gap reflects the limited opportunities for DI beneficiaries to accrue assets and their need to spend whatever assets they manage to accumulate to meet medical expenses or make up for lost income, especially during the DI and Medicare benefit waiting periods.

Poverty and Near-Poverty Rates

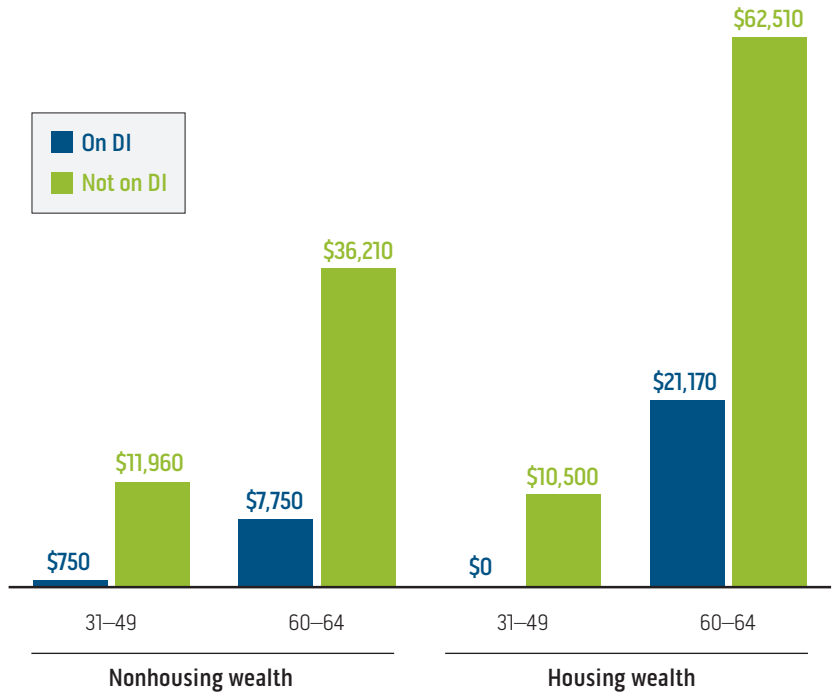
Given DI beneficiaries' relatively low incomes, it is not surprising that many live in poverty or near poverty, with incomes below 125 percent of the federal poverty level. In 2010, 31 percent of DI beneficiaries ages 31 to 49 had family incomes below the poverty level, and another 13 percent had incomes between 100 percent and 125 percent of the poverty level, about double the rates for nonbeneficiaries in the same age group (figure 7).[10] Poverty rates were lower for DI beneficiaries ages 60 to 64, but they remained about 1.6 times as likely to live in or near poverty as their counterparts who did not receive DI benefits. For both beneficiaries and nonbeneficiaries, poverty rates are much higher for unmarried adults, who cannot rely on spousal income, than married adults. Nearly three in five young unmarried DI beneficiaries (57 percent) lived in or near poverty in 2010.

Poverty rates are also especially high among longtime DI beneficiaries. Among those receiving DI benefits for more than five years, 46 percent of adults ages 31 to 49 and 20 percent of those ages 60 to 64 lived in or near poverty in 2010 (figure 8). Both rates were about 50 percent higher than those for adults who had begun receiving benefits more recently. These differences likely reflect the shorter work histories and lower predisability earnings among beneficiaries who began collecting DI benefits at relatively young ages. Such beneficiaries are also less likely to have accumulated much wealth (and more likely to have spent whatever they had) than those who entered the program later in life.

Although we have focused on DI beneficiaries, it is important to bear in mind that many working-age Americans with serious health problems do not receive DI benefits. Poverty and near-poverty rates are quite high among those who report significant disabilities but are not receiving DI benefits. Indeed, as figure 8 shows, their poverty rates in 2010 were substantially higher than those for DI beneficiaries who had been receiving program benefits for at least five years.

Other evidence of the financial hardships faced by DI beneficiaries abounds. They are about twice as likely as nonbeneficiaries to report that they cannot meet essential expenses (Favreault and Smith forthcoming). DI beneficiaries are also about twice as likely to report being unable to afford to see a doctor or dentist, having trouble with utility bills, or having trouble with rent or mortgage payments. They are about three times more likely to report food insecurity (defined as not having enough to eat sometimes or often) than those not receiving DI benefits.

Figure 6. Median Family Wealth by DI Beneficiary Status and Age, 2010

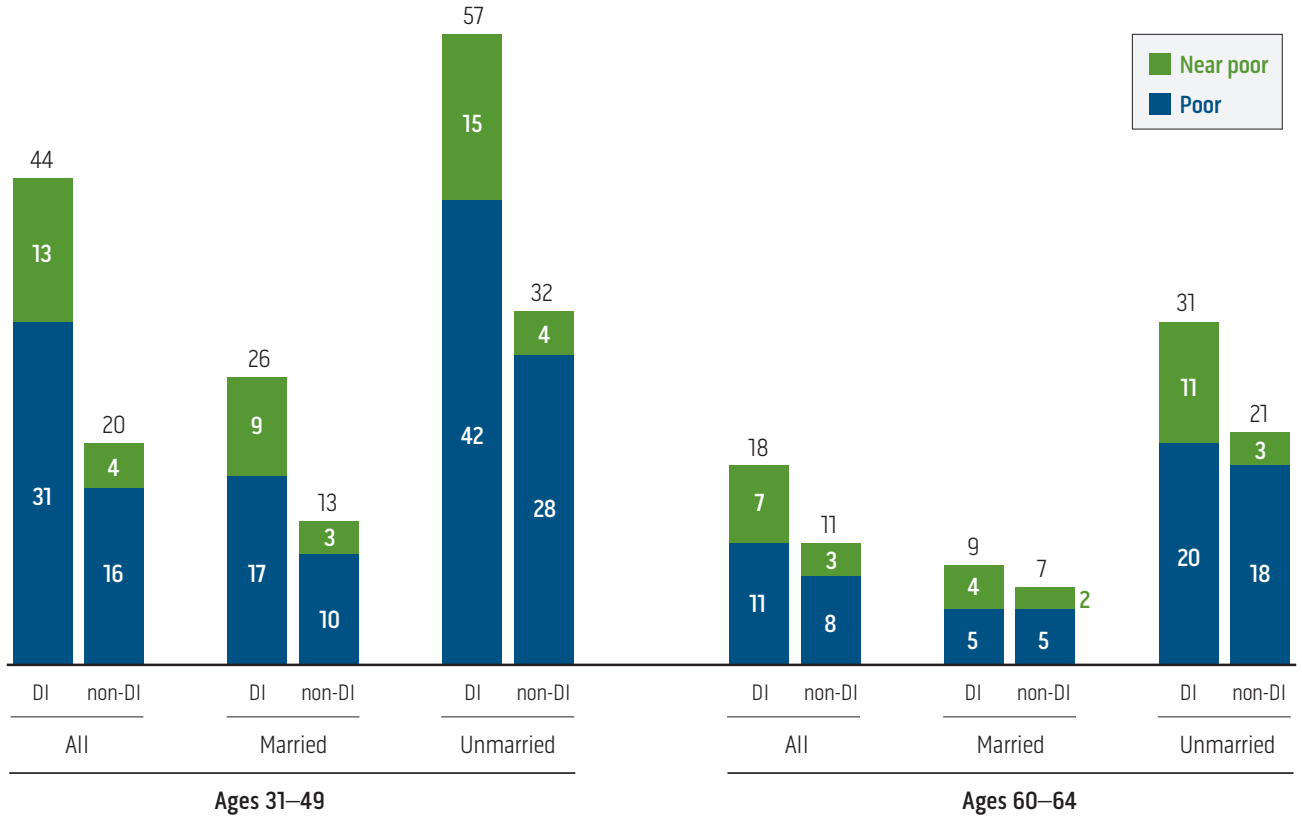


Source: Authors' calculations from MINT7.

Conclusions

DI plays a vital role in the nation's social safety net, providing essential financial support to millions of workers and their families. Nearly half of DI beneficiaries rely on the program for at least half of their family income, while benefits account for virtually all of the income received by a fifth of beneficiaries. The program is even more important for unmarried beneficiaries, about a third of whom receive nearly all of their income from DI. The program is not particularly generous, however, and many beneficiaries face financial hardship. Average family incomes are only about half as large for DI beneficiaries as nonbeneficiaries, and DI beneficiaries are twice as likely to live in poverty or near poverty.

Figure 7. Poverty and Near-Poverty Rates by DI Beneficiary Status, Marital Status, and Age, 2010 (%)



Source: Authors' calculations from MINT7.

Note: Near poverty is defined as income above the federal povery level but below 125 percent.

DI faces a number of challenges that could lead to significant program changes. For example, program costs have escalated in recent decades as the number of individuals receiving DI benefits has grown. It is not clear why disability rolls have been expanding. Possible explanations include population aging and women's increased coverage under the program as their employment has grown. Ongoing increases in the full retirement age also extend the eligibility period for DI (Duggan, Singleton, and Song 2007). The program also appears to be expanding within age and sex groups, and musculoskeletal and mental impairments account for an increasing share of DI awards. Deteriorating job prospects for less-educated workers may play a role, making DI benefits more appealing to some workers. Another contributing factor could be longer durations on the program. Lower mortality rates play a role in this, as do reductions in Continuing Disability Reviews (CDRs), which verify whether beneficiaries are still unable to work. As CDRs become less common, fewer beneficiaries are dropped from the disability rolls. The best estimates suggest that all of these factors play roles and should be taken into account when considering the program's future (Congressional Budget Office 2012; Morton 2013; 2011 Technical Panel on Assumptions and Methods 2011).

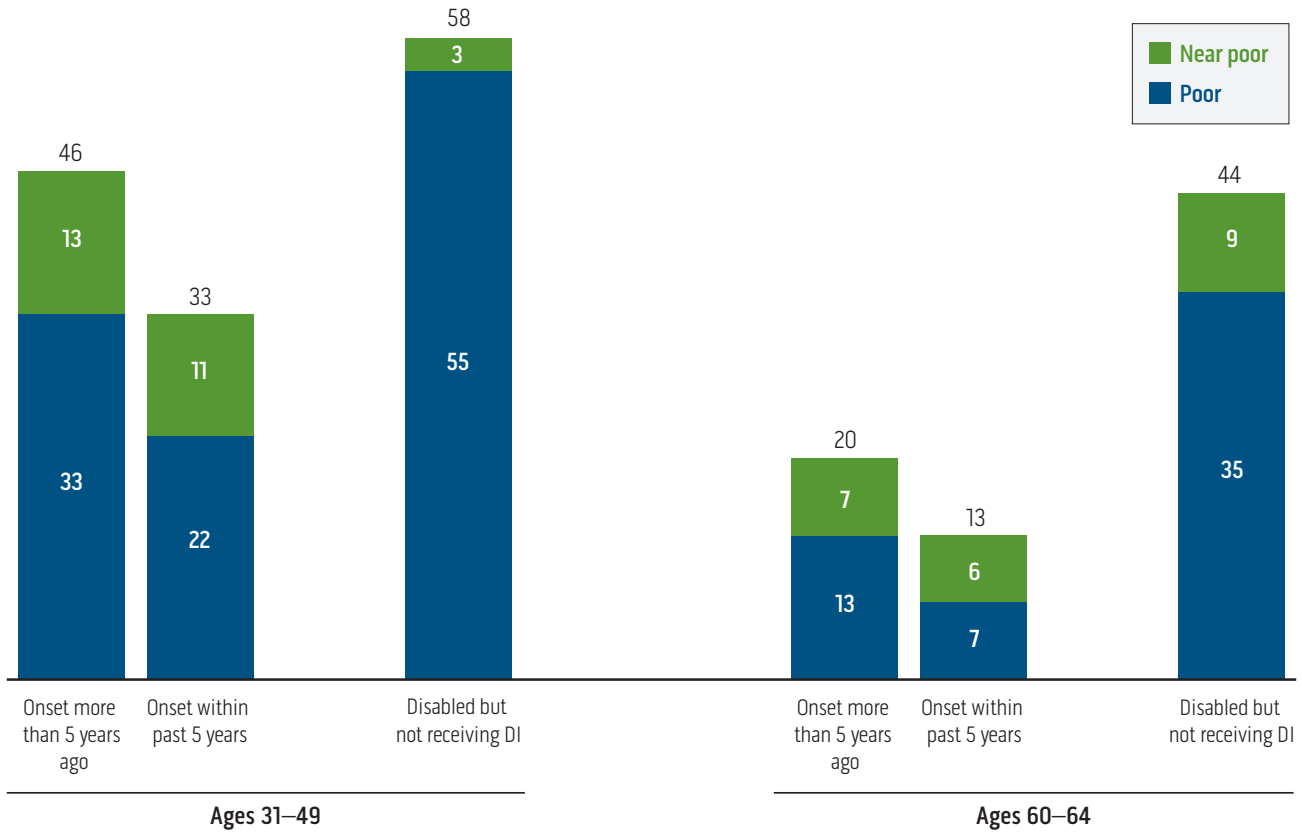
The DI program has also been plagued by administrative problems, especially a long application backlog. DI applicants must provide medical records to support their disability claims. Applicants who are initially denied benefits may appeal and request hearings before administrative law judges and Social Security's Appeals Council.[11] The wait for such hearings is longer than a year in some parts of the country. An infusion of funds from the 2009 American Recovery and Reinvestment Act temporarily helped reduce the backlog, but progress has again

slowed. The backlog may worsen as federal budget pressures limit funding for SSA.

Treating all applicants fairly is a critical challenge. Because DI applications contain so much complicated medical evidence and states administer several parts of the process, standards about who qualifies for DI benefits may not be applied consistently within offices (Maestas, Mullen, and Strand forthcoming) or across the country (Social Security Advisory Board 2012), though measuring disparities is challenging and differences may be partly due to other factors. How medical-vocational guidelines should vary by age, occupation, and impairment type is another important issue, including how they should treat multiple impairments that may not individually meet the stated guidelines but cumulatively impair work ability as much as those impairments that are enumerated in the guidelines. Some evidence suggests that the existing DI determination process may disadvantage those with multiple impairments relative to those with single impairments (Johnson, Favreault, and Mommaerts 2009). The DI determination process may also vary by race, especially at certain stages in the process (such as insured status, initial consideration, reconsideration, and judicial review). For example, some research points to racial disparities at the hearing stage (Godtland et al. 2007; U.S. General Accounting Office 2003). African Americans who are not represented by an attorney are less likely to be awarded DI benefits at the appellate stage than otherwise similar applicants.

Finally, the overall Social Security program faces a long-term financing deficit. The combined retirement and disability system has been paying more benefits than it collects in taxes, and that funding gap is projected to continue under current rules until the trust fund that makes up the difference runs out in 2033 (Board of Trustees 2013).

Figure 8. Poverty and Near-Poverty Rates among Adults with Disabilities, by Timing of Onset, DI Beneficiary Status, and Age, 2010 (%)



Source: Authors' calculations from MINT7.

Note: Adults not receiving DI benefits are classified as being disabled if they report two or more limitations with activities of daily living and fair or poor health. Near poverty is defined as income above the federal povery level but below 125 percent.

After that, Social Security will be able to fund only about three-quarters of scheduled benefits. The accounting is more pressing in the short run for DI, whose trust fund is projected to be depleted in 2016, although Congress could easily keep the disability program funded by increasing the share of the total Social Security payroll tax it receives (Chaplain, Schultz, and Nickerson 2013). Efforts to address these financing problems should recognize the crucial role that Social Security plays in the financial lives of Americans with disabilities, among the nation's most vulnerable citizens.

Acknowledgments

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Notes

1. See, for example, Debt Reduction Task Force (2010) and National Commission on Fiscal Responsibility and Reform (2010).
2. SSA (2013a), tables 4.C2 and 4.C5.
3. In 2013, workers are considered to engage in substantial gainful activity if they earn at least $1,040 per month (or $1,740 per month if blind). The threshold changes each year with average annual earnings.
4. Whereas Social Security retirement benefits are based on a worker's 35 highest-earnings years, DI benefits are computed over a prorated period based on the age at which the person became disabled.
5. Self-employed workers pay both halves of the tax.
6. Simple regression analyses suggest that accounting for age, education, nativity, and other differences explains much, but not all, of the racial and ethnic gap in DI benefit receipt.
7. This led us to somewhat understate the difference between DI beneficiaries and others, given that beneficiaries were less likely to fall into this high-asset group.
8. We constructed age-specific quintiles to see how individuals on DI fared relative to others at the same stage of the life course. Income was measured as a share of the poverty threshold to account for differences in family size.
9. The median indicates the midpoint of the wealth distribution, with half of the group having more than the median and the other half having less.
10. The 2010 poverty threshold was $11,344 for a single adult and $22,113 for a married couple with two children.
11. Unsuccessful applicants may ultimately contest the denial in federal district court.

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Appendix

Our analyses of the income distribution of DI beneficiaries rely on a combination of administrative and survey data. Our primary data sources are the 2004 and 2008 Survey of Income and Program Participation (SIPP) panels matched to administrative data. These data are the basis for Modeling Income in the Near Term (MINT), a SIPP-based forecasting model housed at SSA. Details of this study can be found in Favreault and Smith (forthcoming).

Using matched survey data allows us to examine the DI beneficiary population by characteristics other than age and sex.[a] In most of our analyses, we look separately at different age groups given how income and assets typically vary over the life course. Most analyses concentrate on 2010, the most recent year for which we have complete administrative data.

For more information about the MINT model, see Smith and Favreault (2013), Smith, Favreault, Ratcliffe, et al. (2007), Smith, Favreault, Butrica, et al. (2010), and Toder et al. (2002).

a. One limitation of matched data is that some people are not linked to the administrative records. Those who do not match differ systematically from those who do. In past work, for example, we found that unauthorized immigrants represent a disproportionate share of unmatched cases. Another limitation is that the baseline SIPP data reflect a noninstitutional population. We have made small sample adjustments to account for this, by increasing weights for those who died shortly after receiving DI benefits.

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Program on Retirement Policy

http://www.retirementpolicy.org

The Program on Retirement Policy addresses how current and proposed retirement policies, demographic trends, and private-sector practices affect the well-being of older individuals, the economy, and government budgets.

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