



Disability Just Before Retirement Often Leads to Poverty

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A patchwork of public programs, including Social Security Disability Insurance (DI), workers' compensation, Supplemental Security Income (SSI), and veterans' benefits, provides income supports to people who are unable to work because of physical, cognitive, or psychological impairments. Although these programs pay nearly \$200 billion a year in benefits, many Americans who develop disabilities in their fifties or early sixties fall into poverty. With millions of boomers entering their sixties—when work disability rates peak—it's time to fix the social insurance safety net for disabled workers.

Disability Risks Increase as Workers Age

Disability rates increase steadily as people approach retirement, roughly doubling from age 55 to 64. These estimates are based on a multidimensional definition of disability that combines information about overall health status, depression, self-assessed work disability, functional impairments, and the ability to engage in basic activities of daily living.

Disability is especially common among those with little income and limited education. Adults who did not complete high school are nearly three times as likely to be disabled by age 64 as college graduates, and high school graduates who never attended college are about twice as likely. It's not entirely clear why disability is so prevalent among low-income people with little schooling, but research points to limited access to health care, higher stress levels, strenuous jobs, and less-healthy behaviors as possible causes. Disability rates are also higher for women than men and for African Americans and Hispanics than non-Hispanic whites.

Disability Benefits Are Limited

Fewer than half (47 percent) of adults who meet our disability criteria receive public disability benefits at some point between age 51 and 64. DI is the most common benefit, with 30 percent receiving payments. About one-sixth

(16 percent) receive SSI. Only 9 percent receive workers' compensation and 5 percent receive veterans' benefits.

The likelihood of receiving benefits increases steadily as disabilities worsen. Among the fifth of disabled adults with the most serious disabilities, nearly three-quarters (74 percent) receive benefits from some public disability program. However, disabled women are significantly less likely to receive benefits than disabled men, because many women with intermittent work histories do not qualify for DI.

Disability Increases Poverty

Poverty rates more than double following disability. For adults who become disabled between age 51 and 64, the share with income below the federal poverty level increases from 7.4 percent before disability onset to 15.5 percent afterward (figure 1). Post-disability poverty rates reach 20.6 percent for the two-fifths of disabled adults with the most severe disabilities and 30.5 percent for single disabled adults, who cannot turn to spousal income to offset part of their lost earnings.

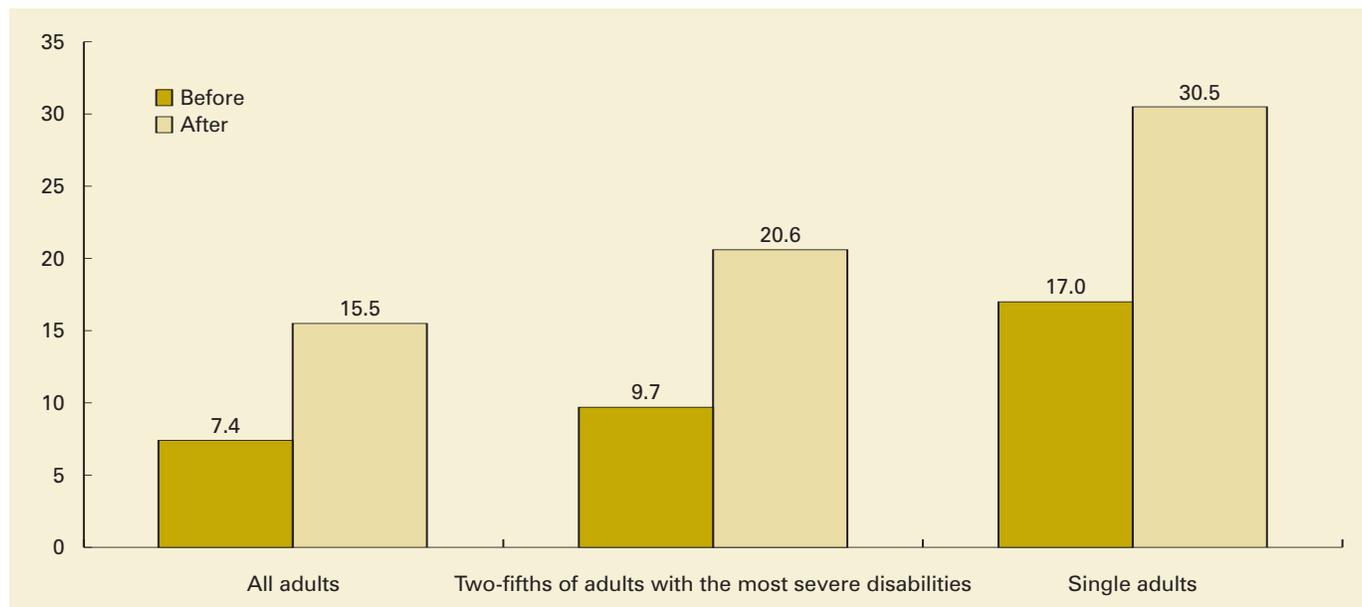
Poverty rates are high for people with disabilities because many do not receive benefits and those who do often receive inadequate payments. In fact, adults who receive DI, SSI, and other disability-related benefits are more likely to fall into poverty than those who do not: beneficiaries generally have fewer economic resources before their health declines than nonbeneficiaries and develop more serious disabilities.

Fixing the Safety Net

With the population aging rapidly, policymakers must address the limitations of the social insurance safety net for people with disabilities. The recent increase in the eligibility age for full Social Security retirement benefits from 65 to 66 will likely intensify disabled Americans' financial challenges. Many people with health problems that prevent work must apply for permanently reduced Social Security retirement benefits at age 62 because they do not meet DI's strict standards. SSI serves as the primary fallback for people under age 62, but it is not available to couples with more than \$3,000 in financial assets or single adults with more than \$2,000. Scheduled increases in Social Security's full retirement age to 67 beginning in the next decade will make matters worse, further cutting early retirement benefits and raising the risk of disability before full benefits may be paid.

One way to improve the safety net for those unable to work would be to better integrate functional ability into the DI award decision. DI's eligibility criteria rely primarily on lists of specific medical conditions. Our results suggest that workers with multiple, less-serious

FIGURE 1. Poverty Rates before and after Disability for Adults Who Become Disabled between Age 51 and 64 (%)



Source: Johnson, Favreault, and Mommaerts (2009).

Note: Estimates are based on a sample of 767 noninstitutionalized adults in the Health and Retirement Study age 51 to 55 in 1992 who are not disabled in 1992 but become disabled at some point between age 51 and 64. Income is measured about two years before disability onset and two years after onset. The analysis uses a multidimensional definition of disability.

impairments encounter special difficulty obtaining benefits, even if they are unable to work. More focus on functional ability would target those with the greatest need for income support.

The only way to significantly reduce poverty among adults who cannot work, however, is to increase benefits. Neither DI nor SSI provides a minimum benefit guaranteed to keep beneficiaries out of poverty. The federal SSI benefit for a single adult, for example, pays only three-quarters of the federal poverty level. Some states supplement SSI benefits, but almost never enough to lift beneficiaries with no other income out of poverty. Nearly two-fifths of DI payments to disabled workers fell short of the poverty level for single adults in 2008.¹

Setting a minimum benefit for SSI and DI at or near the poverty level would raise program costs and further exacerbate the federal deficit. Targeting disability benefits to those truly unable to work, however, will limit these effects and ensure that higher benefits do not undermine work effort. The gains from guaranteeing a subsistence-level cash benefit to one of the nation's most vulnerable groups would far outweigh the costs.

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Note

1. This estimate is based on data from Social Security Administration (2009).

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