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## Disability Insurance Program in the United States: An Analysis of Incentives

Study cases, research, comments, and other contributions are welcomed, and could be sent by e-mail to: Silke Fontanot at [s.fontanot@ciiss.org.mx](mailto:s.fontanot@ciiss.org.mx)

English - Or. English

## ACRONYMS AND ABBREVIATIONS

CPI	Consumer Price Index
DDS	Disability Determination Service
DI	Disability Insurance
DPN	Disability Program Navigator
DSI	Disability Service Improvement
eDib	Electronic Disability
GAO	Government Accountability Office
GDP	Gross Domestic Product
MVES	Medical-Vocational Expert System
OASDI	Old-Age, Survivors, and Disability Insurance
OECD	Organization for Economic Co-operation and Development
OHA	Office of Hearings and Appeals
OMB	Office of Management and Budget
QDD	Quick Disability Determination
SSA	Social Security Administration
SSDI	Social Security Disability Insurance
SSI	Supplemental Security Income

## CONTENTS

### Table of Contents

I. Introduction.....	4
II. The Economics of DI Programs .....	4
III. A Historical Review: 1935-2006 .....	6
III.1 Disability Freeze.....	6
III.2 Expansion of the Disability Program.....	7
III. 3 Tightening Disability Insurance Program Benefits and Requirements .....	8
III. 4 Most Recent Developments in the Disability Program .....	10
III. 4.1 Work Incentive Programs.....	10
III.4.2 New Developments in Assessing Disability.....	12
IV. Trends in the Social Security Disability Insurance Programs: 1957-2004.....	16
V. Conclusions and Recommendations .....	23
VI. References .....	24

### Figures

- 1 New Disability Determination Process: United States
- 2 Persons Receiving Disability Benefits: OASDI, 1957-2004
- 3 Persons Receiving Disability Social Security Benefits: 1951-2004
- 4 Persons Receiving Disability Benefits by Age and Sex: 1957-2004
- 5 Number of Blind and Disabled SSI Recipients: 1974-2004
- 6 Conversions from Disability to Old-Age Pensions: 1960-2004
- 7 OASDI Benefits Terminated by Reason of Termination and Type of Benefit: 2004
- 8 Average Monthly Payment by Sex and Type of Benefit: 1960-2004

## I. Introduction

The main objective of social security programs around the world is to protect persons from declines in consumption during adverse situations such as job loss, illness, aging, and disability. Disability programs protect persons and households against chronic or temporary incapacity to work and earn. In addition, disabled persons may have access to health services, as well as to vocational rehabilitation programs and other work incentive programs; however, this element is not always present.

As it is well known, developed countries have currently the kindest and largest social security systems around the world. Nevertheless, social security policies—referring to changes in the administrative/operational processes, coverage expansion, increase in benefits, and the reduction in eligibility requirements—sometimes create incentives that run in a different direction as the objective(s) of the program.

The main purpose of this paper is to analyze the United States experience in an effort to make policy-makers conscious of the incentives policies might create in its population, in order to avoid negative outcomes. For this purpose, the paper is divided as follows: Chapter II reviews the main problems surrounding disability insurance programs in general. Chapter III studies the changes in the United States social security legislation and the incentives these changes have created in its population. In addition, Chapter III highlights the current strategies SSA is using to reverse the increasing tendency in the number of disability cases. Chapter IV shows through different figures the current trends in the United States social security disability program. Chapter V concludes and gives some recommendations.

## II. The Economics of DI Programs

Disability Insurance (DI) faces two important types of information problems. The first is due to elements that are inherent to the program: the changing social and regulatory views on disability, and the evolving possibilities of individuals to heal and obtain earnings. The second class of information problems comes from the asymmetry of information between individuals and insurers: individuals may hide their real health condition or possibilities of obtaining employment in order to obtain benefits.

First, DI is a program that defines disability as a social event. It compensates for a loss of income, not for a specific damage defined in a contract, or a regulated classification. For this reason, a DI pension, in general, is not fully compatible with the development of earnings possibilities of the disabled; DI has been used at times to substitute for unemployment or early retirement insurances. As a natural corollary, the

standards to define general disability can evolve over time, due to technical changes that facilitate cures or the performance of labor or personal tasks. Standards can also be altered by social perceptions of what type of harm justifies the payment of a pension. Certainly, in all systems, DI would pay benefits to individuals with strong physical handicaps, such as blindness, deafness, or paralysis or lack of some specific member. However, in many cases, the handicaps are not so well defined, as with mental illness or pain, and professionals have to use their experience to interpret the available information to determine if the person is eligible to obtain earnings. In numbers, Ásgeirsdóttir (2003), Deputy Secretary-General of the OECD, indicated that severe disabilities affect only about one third of the working-age disabled, and mentioned that the majority suffer from stress-related, muscular, and cardiovascular diseases. He also mentioned that mental and psychological problems are on the rise, making it harder to assess disability.

On the other hand, the information problem would arise even if, at a given point in time, the standards to adjudicate and review DI cases were defined in detail. Evidently, as DI compensates for a loss of income, individuals may have incentives to hide their true health condition or possibilities to obtain earnings in the market. This so-called moral hazard problem may lead agencies to systematic errors. For example, an agency may decide to avoid the error of not granting benefits to anyone with a true disability, which may lead to the provision of benefits to some undeserving cases; alternatively, an agency may decide to avoid the error of granting a benefit to an undeserving case, leading to a higher probability of not adjudicating cases that truly correspond to a disability condition. Each of these approaches will lead to different levels of benefits and litigation around the program. It is not obvious that one approach can be deemed better in terms of welfare. Granting a benefit in cases that do not deserve it, leads to general damage to tax payers; and forcing some truly disabled individuals to litigate to obtain benefits delays their reception of the benefit, and creates psychological harm and a lower probability to return to the labor market.

The two key challenges for DI define another problem. This problem involves estimates of incidence, which are not easily comparable across countries or even within the same country over time. This is only a natural result of the information issues defined above.

Monitoring after having granted disability benefits is also necessary because disability is not a static event, and beneficiaries fail to inform program administrators regarding changes in their condition and in the level of work earnings. Next chapter reviews the changes in the United States legislation over time, highlighting the incentives these changes had brought to the leisure-labor decision of its population.

### III. A Historical Review: 1935-2006

The Old-Age, Survivors, and Disability Insurance Program (OASDI) of the SSA began in 1935. Nevertheless, it was until August 1, 1956 that the “D” referring to the “Social Security Disability Insurance Program” (SSDI) was established. At the beginning, the program provided monthly benefits only to covered disabled workers between 50 and 65 years who met certain requirements for insured status. The program later significantly expanded its coverage and reduced its eligibility requirements. Nevertheless, after 1972, in an effort to achieve sustainability, SSA searched for a way to tighten up benefits and eligibility requirements. A historical review of the social security disability program is listed below<sup>1</sup>.

#### III.1 Disability Freeze

*1954: Social security amendments of 1954 establish the disability “freeze”.*

In 1954, the social security amendments established the disability “freeze”, which marked the beginning of the United States social security disability program. Nevertheless, the disability insurance legislation itself was not passed until 1956.

*1956: monthly benefits are provided to the disabled workers aged 50-64 and to children (aged 18 or older) of retired or deceased workers.*

The 1956 legislation provided cash benefits to disabled applicants aged 50 to 64 who met special requirements to be insured for disability benefits, and for disabled adult children who had a disability that began before the age of 18 and were survivors or dependents of social security beneficiaries. The amount of the benefit for an adult beneficiary was equal to an old-age insurance pension. Nevertheless, disability benefits were less generous than old-age benefits in that there was no provision for the wage earners dependents. The viewpoint that a person would not leave a job paying substantial wages to receive social security benefits unless he/she is truly disabled appears to have been the rule. This point of view caused some important financial problems to SSA budget starting in the 1970's.

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<sup>1</sup> The historical review was made following Kearney (2006) and Green, et al (2006).

### III.2 Expansion of the Disability Program

*1958: benefits are established for the dependents of disabled workers.*

The social security amendments of 1958 provided benefits for dependents, spouses, and children of disabled workers, and loosened the insured status requirements.

*1960: the requirement that a worker must be at least 50 years old to become eligible for disability benefits is eliminated.*

The social security amendments of 1960 eliminated age 50 requirement to become eligible for disability benefits. They also eliminated the 6-month waiting period for a disability that recurred after an apparent recovery.

*1965: Changes to the definition of disability are introduced.*

The 1965 social security amendments changed the definition of disability to an impairment “that could be expected to last for a period of 12 months or longer” instead of an impairment having a “long-continued and indefinite duration.” In making the 1965 change, congress extended the law to immediate benefit entitlement for an additional 60,000 disabled workers and their dependants.

*1968: benefits for disabled widow(er)s aged 50 or older are enacted.*

The social security amendments of 1967 introduced benefits for disabled widow(er)s who were not insured for benefits on their own account, beginning at age 50.

*1972: Medicare coverage for disability insurance beneficiaries and SSI program for disabled persons with low resources are established.*

The social security amendments of 1972 extended Medicare protection to disability beneficiaries after 24 consecutive months of benefit entitlement and established the Supplemental Security Income program (SSI)—coming from general taxes and based on financial need—for disabled persons with low resources. In addition, these amendments reduced the waiting period before disability benefits could be paid from 6 to 5 months, and increased the age ceiling for entitlement and re-entitlement to childhood disability benefits from age 18 to 22. Finally, they provided automatic benefit adjustments (indexing) tied to the consumer price index (CPI) to begin in 1975, allowing benefits to

increase automatically each January when the CPI rose 3 percent or more from the time of the last benefit increase.

### III. 3 Tightening Disability Insurance Program Benefits and Requirements

During the 1970's, the number of persons insured for disability benefits increased by more than one-third, and outgoing benefit payments increased by a multiple of five. The indexing of benefits of the CPI was implemented at a point when prices were increasing much faster than wages. Other changes in the economy, such as slower growth and higher unemployment, were also contributing factors. GDP grew by an average of 4.4 percent from 1960 to 1969, but by only 3.3 percent from 1970 to 1979; unemployment averaged 4.8 percent from 1960 to 1969, and, from 1970 to 1979, it reached 6.2 percent. On the other hand, the median replacement rate for disabled beneficiaries rose from less than 50 percent of past earnings to about 70 percent. Replacement rates for low earners rose to more than 90 percent. The portion of new beneficiaries with a replacement rate of 80 percent or more rose from about 13 percent to almost 40 percent.

The scarcity of administrative resources also contributed to the increase in disability awards and to a decline in disability terminations due to medical recovery. Before 1972, SSA reviewed 70 percent of the state allowances before effectuation of the benefit. However, during the early 1970's SSA did not have the resources to maintain this process and reduced the proportion of allowances it reviewed to 5 percent. The agency also reduced the percentage of continuing disability reviews from 10 percent of beneficiaries to 5 percent during the same period, contributing to a decline in recoveries from 30 per 1000 in 1967 to 15 per 1000 in 1976.

The 1972 amendments, combined with high inflation, slower growth, higher unemployment, and the scarcity of administrative resources, induced persons to use the disability program as an alternative for early retirement. Next paragraphs refer to the SSA efforts to reverse the high growth in the disability social security insurance in order to assure the program sustainability.

*1977: A new formula to compute disability benefits is introduced.*

In 1977, a new formula to compute disability benefits was introduced. The main intend of this formula was to stabilize replacement rates for all OASDI programs. Under the old law, the replacement rate for the average earner would have risen to 68 percent by 2050; under the new one, it remained stable at 43 percent.

*1980: Social security amendments of 1980 place a cap on family benefits to disabled workers; periodic disability reviews and work incentives were established.*

In order to curb the growth in the disability social security program costs, the amendments of 1980 were established. The main provisions of the 1980 amendments were as follows:

- A new family maximum was designed to ensure that DI beneficiaries and their families would not receive benefits that were significantly higher than the worker's pre-disability net earnings.
- The number of years that could be dropped from the computation was made proportional to the age of the disabled worker to ensure that workers with similar earnings histories would receive similar benefits, regardless the age at which they became disabled.
- A number of incentives were created to encourage disabled beneficiaries to return to work. This initiative includes the extension of Medicare coverage, continuation of vocational rehabilitation programs, and waiver of the 24-month waiting period for Medicare for persons who became re-entitled to DI benefits.
- Performance standards were established for the state Disability Determination Services (DDS)—regional agencies in charge of the initial disability assessment. These standards emphasized performance criteria, fiscal control procedures, and other standards designed to ensure equity and uniformity in disability assessment.
- Periodic reviews (at least once every 3 years) were established in order to seek for medical improvement in the condition of those disabled receiving benefits.
- Federal pre-effectuation reviews of DDS allowances and continuation determinations were mandated to ensure greater consistency and uniformity of decisions made by DDS.
- The introduction of new evidence was prohibited after a decision was made at the hearings level.

Given the 1980 social security amendments, SSA could save around \$2 billion US dollars per year by terminating some disability cases that, according to its judgment, no longer met the medical requirements of eligibility. In December 1980, the Government Accountability Office (GAO) recommended SSA to focus its resources on the disability program and concentrate in those cases in 1974 to 1975. The same month, the Office of Management and Budget (OMB) reported that 584,000 beneficiaries no longer met the eligibility requirements to receive disability benefits. Nevertheless, within months after

the reviews were initiated, stories appeared in the press describing people who appeared to be severely disabled having their benefits terminated. Newspapers also criticized the disability review process. However, efforts to streamline the program and improve public service, while keeping program expenditures under control, have continued ever since.

*1984: Congress develops new criteria for adjudicating claims involving mental impairments and establishes a “medical review standard” for reviewing disability.*

Numerous court decisions challenged SSA’s disability determination policies in the early 1980’s. For example, there were allegations that SSA had created a quota system by establishing a target number of beneficiaries who should be removed.

In 1983, Massachusetts and New York refused to continue conducting the reviews. In 1984, it was ruled that SSA had violated the law in reviewing the cases of persons with mental impairments, and the New York state Attorney General threatened to initiate proceedings against SSA for contempt. In the face of these problems, a bill addressing the medical improvement standard was presented. Under this bill, benefits would not be discontinued if there were no medical improvement, provided the beneficiary did not return to work above the substantial gainful activity level. After much debate, the issue was resolved in favor of the medical improvement standard.

Following implementation of the 1984 amendments, the number of awards and beneficiaries began to increase. During the period 1986 to 1990, the number of new awards was similar to what it had been before 1970. Regarding beneficiaries with mental impairments, changes in the medical listings had the effect of increasing this category. Between 1985 and 1986, the proportion of awards for mental impairments increased from 18 to 30 percent of total awards, and has remained at approximately the same level ever since.

### III. 4 Most Recent Developments in the Disability Program

#### III. 4.1 Work Incentive Programs

*1999: The “Ticket to Work and Work Incentives Improvement Act” is enacted.*

The early 1990’s brought a period of rapid growth to the disability program. From 1990 to 1995, the number of awards to disabled workers grew by more than 40 percent over the previous 5-year period. Total benefit payments in 1995 were about 60 percent higher than had been in 1990. In addition, the number of disabled workers as a percentage of the insured rose from 2.5 percent in 1990 to 3.3 percent in 1995, and the disability program

administration accounted by 1993 for over half of the agency's administration expenses. The time it took to process an initial claim had also increased.

Work incentive programs had been established since the enactment of the disability program in 1956. Nevertheless, analysis of the effects of those programs yielded disappointing results ever since. A 1992 study of a cohort of individuals entitled in 1980 to 1981 revealed that about 10 percent performed some work over a period of approximately 10 years, but less than 3 percent had their benefits terminated because of work above the substantial gainful activity, and almost one-third of those terminated had returned to previous benefit status. Additional research revealed that 80 percent of disability beneficiaries were unaware of SSA's work incentive programs, and few of those who were aware of them were interested in assisting. Vocational rehabilitation seemed to have a positive effect on work, but only 2 percent of beneficiaries received such services.

In 1999, congress decided to take a more comprehensive approach to encouraging beneficiaries to return to work. For this purpose, it enacted the "Ticket to Work and Work Incentives Improvement Act". These actions would allow disability beneficiaries to seek employment, vocational rehabilitation, or other support services needed to regain or maintain employment and reduce their dependence on cash benefits.

The "Ticket to Work Program", which began in the year 2002, provides an array of inducements for current SSDI beneficiaries to take up employment. These incentives include: a "trial work period" up to 9 months that provides 7.75 years of ongoing Medicare eligibility following return to work, and 3 years of automatic benefit reinstatement when the claimant's earnings fall below a given level. Nevertheless, despite this effort, at the beginning of the year 2007, fewer than 1,400 tickets of a total of 12.2 million had led to successful workforce integration. Autor and Duggan (2007) attributed this failure to the effect of the guaranteed income in relation to the wages these workers can obtain, and to the cash transfers and health benefits that virtually define an early pension. In addition, these authors proposed that the efforts to make the disabled return to work have been unsuccessful, because policies have focused on reducing the implicit tax on work and disregarded the preferences for early retirement. If such is the case, the United States faces a situation not unlike the one present in most OECD countries, where, according to Alba, et al (2004), the integration of the disabled to the labor market cannot be classified as satisfactory. In Europe, high taxes on labor, in addition to high rates of pensions, has sometimes been used to explain low incentives to return to work, but, in practice, the preferences of the population for an early retirement may be also an important variable.

Further work incentive programs in the United States are the "Disability Program Navigator (DPN)", which are one-stop career centers where beneficiaries with disabilities can receive employment services; the "National Benefit Offset", which is a project where

participants will have their monthly benefits reduced one dollar for every two dollars of earnings above a specified level; the “Youth Transition Demonstration”, which was created to assist youth with disability to successful transition from school to work; the “Accelerated Benefits Program,” which accelerates the reception of benefits and treatments<sup>2</sup>, and the “Mental Health Treatment Study”, which evaluates the impact of increasing the access to medical treatment and employment services for disability beneficiaries who have a mental impairment as primary diagnosis. This project provides also pharmaceutical and psychotherapeutic treatments and/or employment services. The previous mentioned projects are part of the “Comprehensive Work Opportunity Initiative,” which have been developed since the publication of the “2005 Red Book” (SSA 2006a).

### III.4.2 New Developments in Assessing Disability

As mentioned before, after the implementation of the disability insurance program, the number of disability claims and hearing requests increased significantly, driving to important delays in disability benefits delivery. For example, the time it took to process and initial claim had increased from 80 days in 1988 to 100 days in 1993, and the processing time for a hearing had increased from 212 to 265 days over the same period. In 2001, the average processing time for an initial disability claim was 106 days, while the average time for a hearing was 294 days (SSA 2002). Moreover, until recently, although most claims were resolved at the initial level of appeals, individuals who exhausted all levels of appeals could expect the process from initial contact with SSA to final decision to take about three years, a period that could impose considerable economic and psychological hardship for applicants and their families. Worst, the time actually spent working on the claim only totaled up to seven days. The rest of the time, cases either sat waiting to be processed due to backlogs, or were delayed because of the collection of medical evidence or giving claimant’s time to request the next step in the assessment process; much time was also spent in searching for the file. The vast majority of those who appealed spent substantial time waiting for a decision from either an administrative law judge or the SSA appeals council, where ironically, in 2005, the accuracy rate of hearing decisions was only 90 percent vs. 97 percent for the DDS, who needed almost half the time to take a decision (SSA 2005).

In recent years, SSA has implemented new developments for assessing disability. The new developments are the following:

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<sup>2</sup> Under current law, most disability beneficiaries in the United States must wait 24 months after cash benefits begin before they become eligible for Medicare. Thus, many have no health insurance and limited access to medical care during a period of time when access to those resources might help improve their medical condition.

*i) Electronic disability (eDib)*

Since 2001, SSA has speeded its efforts to change from a paper process to an entirely electronic one, called Electronic Disability (eDib). As a result of eDib, the traditional paper disability folder is replaced by an electronic folder that stores the documentation for the disability claim. It contains documentation to support all stages of disability claims process, from the application through all appeals, and in the near future, it will include continuing disability reviews.

EDib process starts with the application for disability, where individuals are able to file a claim for disability benefits, either by using the Internet or by contacting a social security office. This process enables a field office to immediately transfer a disability claim to a DDS, thus avoiding delays. Medical and other evidence that is received electronically goes directly into the electronic folder. Evidence that is received in paper is scanned and added to the electronic folder. The contents of the electronic folder can be accessed by SSA field office staff, quality assessment reviewers, and state and federal adjudicators from anywhere in the country. It also enables more than one employee to work on a claim at the same time, thus expediting claim processing, providing greater flexibility, and protecting against lost or damaged folders; it also protects the confidentiality of the claimant's information. Furthermore, the process improves the ability to track and manage workloads, and enhances the ability to electronically conduct business with the public providing online options for filing disability benefits and submitting medical and other evidence.

Implementation of the electronic folder began in January 2004. As of January 31, 2006, all of the State DDSs had begun using electronic disability folders, and more than half were working new claims in a completely electronic environment.

*ii) Disability Service Improvement (DSI)*

On March 31, 2006, the Commissioner published final rules to implement a new disability determination process called Disability Service Improvement (DSI). The new process is designed to improve the accuracy, consistency, and timelines of disability decision-making throughout the determination process. Nevertheless, the evidence shows that the new process also intends to strengthen control in assessing disability. The specific changes are as follows:

- A quick disability determination (QDD) process for individuals who are clearly disabled was established by regulation. Under the QDD process, a predictive model identifies claims that involve a high potential that the claimant is truly disabled,

and that evidence of the claimant's condition can be easily and quick obtained. These claims will be automatically referred from the SSA field office to QDD units in the DDS whose function will be to process QDD claims within 20-day time limit.

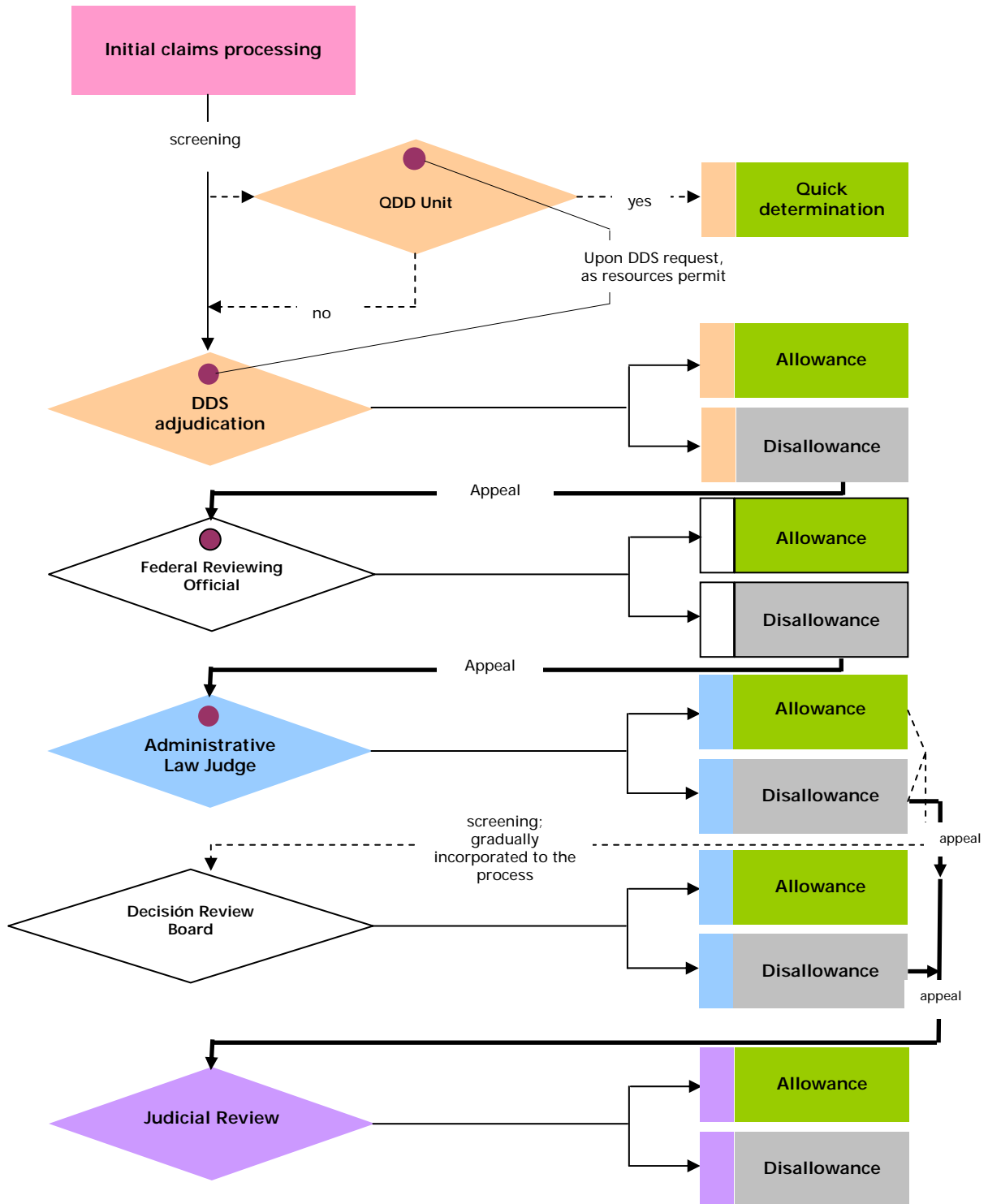
- A new Medical-Vocational Expert System (MVES) was created to enhance the expertise needed to make accurate and timely decisions.
- A new position—the Federal Reviewing Official—will review state agency determinations upon the request of the claimant; this eliminates the reconsideration step<sup>3</sup> of previous appeals process.
- The record after the administrative law judge issues a decision will be closed, when there is not a good exception for this rule.
- A new body—the Decision Review Board—has been created to review and correct decisional errors and to ensure consistent adjudication at all levels of the disability determination process.
- The appeals council will be phased out gradually (SSA 2006b).

Figure 1 shows a summary of the new determination process.

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<sup>3</sup> In previous disability determination process, the first level of appeal was reconsideration, where cases were returned to DDS for reconsideration by a different disability examiner.

Figure 1  
New Disability Determination Process: United States



Colors: pink = SSA Field Office, orange = Disability Determination Services (DDS), blue = Office of Hearings and Appeals (OHA), purple = U.S. District Court, vine = Medical-Vocational Expert System (MVES).  
Source: SSA 2007.

### *iii) Improvements in the Listing of Impairments*

Since the beginning of the disability program, SSA has used listings to more quickly identify individuals who are clearly disabled. However, until recently, no comprehensive update of the listings has taken place, and DDS around the United States has understood and applied those listings in different ways. For example, Benitez-Silva, et al (2004) found that, in the year 2000, DDS award rates for SSDI applicants ranged from 65 percent in New Hampshire to 31 percent in Texas, and award rates for SSI applicants ranged from 59 percent in New Hampshire to 27 percent in West Virginia, varying in a manner that is difficult to ascribe only to differences in characteristics of the applicant pool.

To mitigate differences in determining disability, in 2004, SSA published final rules for cancer, kidney or cardiovascular diseases, skin disorders, and impairments that affect multiple body systems. The goal is to update all body systems in the listings. These rules update the regulations that explain how to use the listings. SSA plans to finish updating all the listings within the next two years.

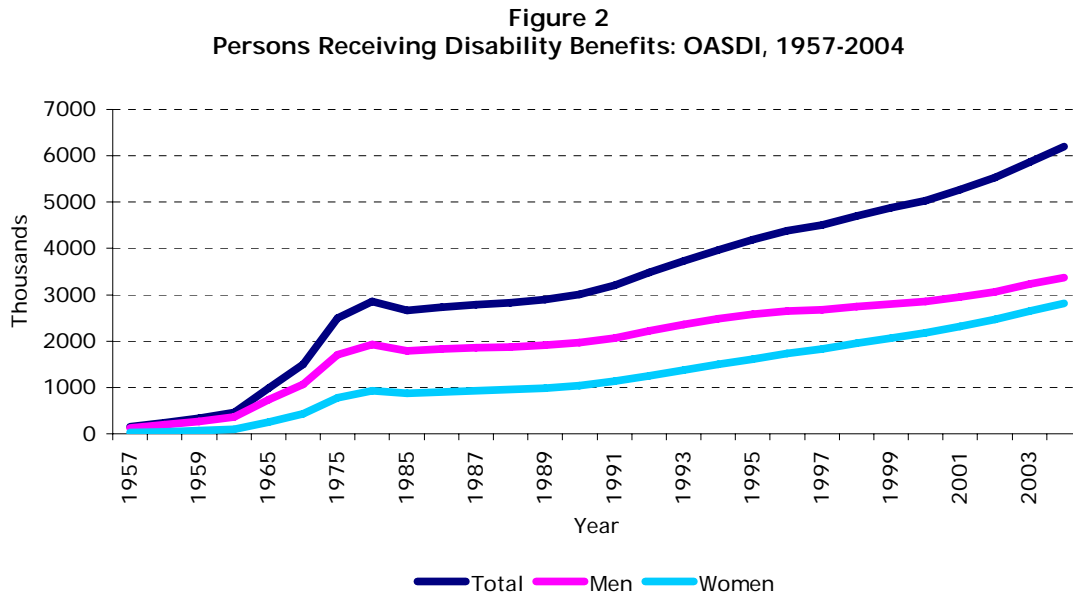
On the other hand, since 2003, SSA is actively soliciting comments and expertise of the public, medical professionals, and advocates for people with disabilities before deciding what revisions to purpose in the listings. These methods have provided policymakers not only additional information that might not otherwise have been available, but also insights into how the rules are understood and applied and how they could be improved from the perspective of the people who are affected by them. This process has greatly improved the quality of the proposed changes and will result in better final rules.

Although the growth in the number of disability beneficiaries is currently less dramatic than before, there is still some evidence of the use of disability insurance as early retirement. Next chapter shows the trend in the United States social security disability insurance program from 1957 to 2004.

## **IV. Trends in the Social Security Disability Insurance Programs: 1957-2004**

As appointed in previous chapter, the United States social security disability insurance program significantly expanded its coverage and reduced its eligibility requirements after its implementation, leading to an important upward in the number of disability beneficiaries, and, in consequence, to budgetary and administrative problems. This chapter shows through different figures that there is still some evidence of the use of the disability insurance as early retirement, although the efforts of SSA to reverse the growing tendency in the number of disability cases.

Figure 2 shows that the number in OASDI beneficiaries increased significantly since 1960 for both sexes, date in which the disability program began to expand its coverage and reduced its eligibility requirements. Figure 2 further shows that although the increasing tendency slowed down form 1985-1989, period in which more restrictive policies were implemented, the number of beneficiaries has continued to grow since the 1990's (period of social disapproval), reaching in 2004 a total of 6,192,000 OASDI disability beneficiaries.

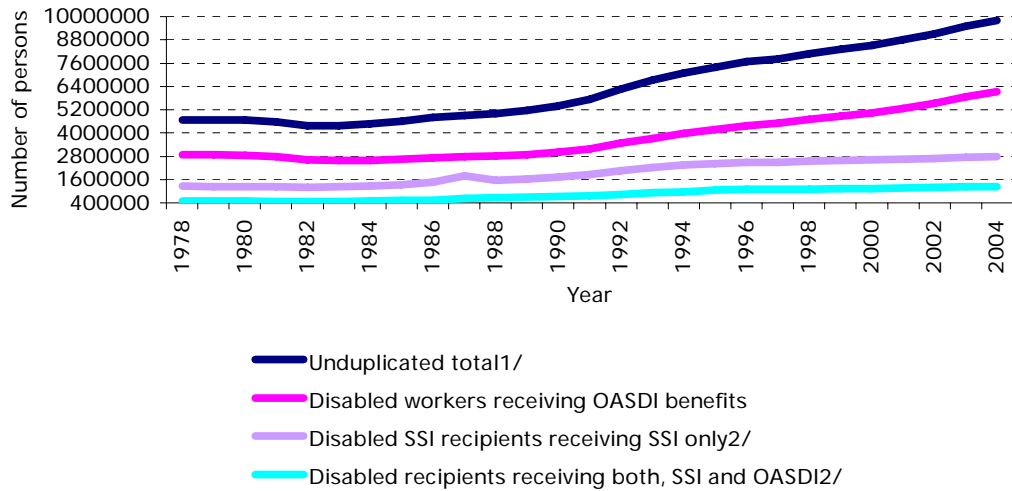


Source: SSA 2006c.

Figure 3 shows that the growth in the number of disability beneficiaries is mainly due to the growing number of disability beneficiaries in the contributive program (SSDI; panel a). In addition, panel b) shows that most disabled recipients in the contributive program are salaried workers.

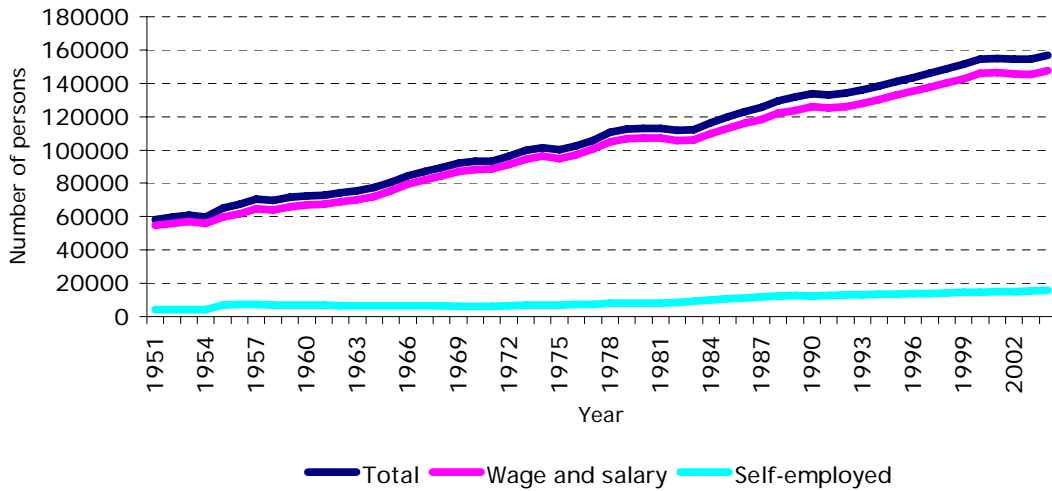
**Figure 3**  
**Persons Receiving Disability Social Security Benefits: 1951-2004**

**Panel a)**  
**Number of Persons Aged 18-64 Receiving OASDI Benefits and/or SSI Payments Based on Disability**



*Notes:* 1/Includes persons receiving Old-Age, Survivors, and Disability Insurance (OASDI) benefits, SSI, or both. 2/Includes blind persons.

**Panel b)**  
**OASDI Covered Workers**  
 (in thousands)

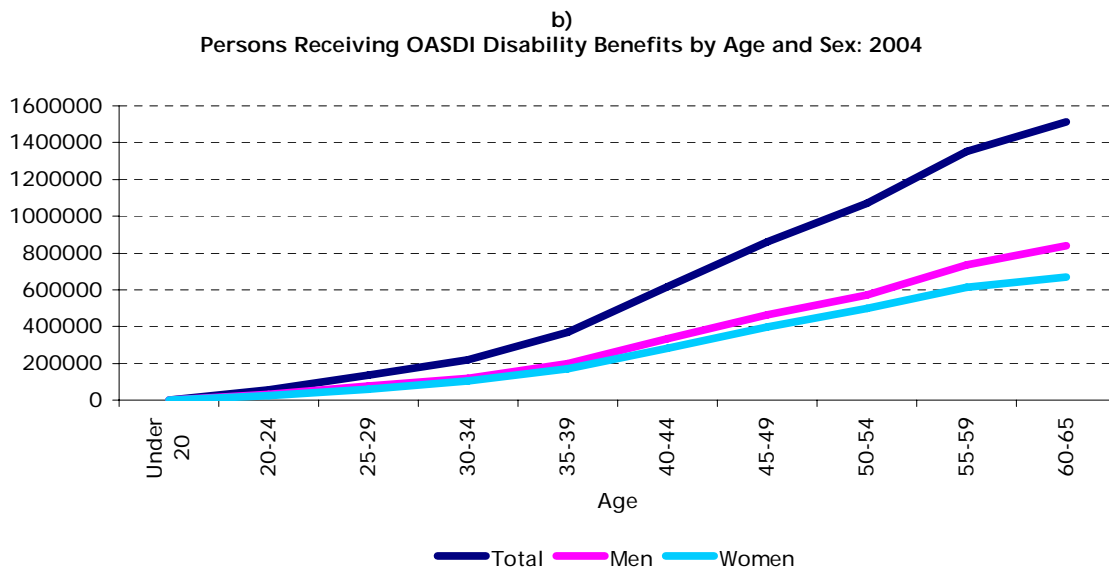
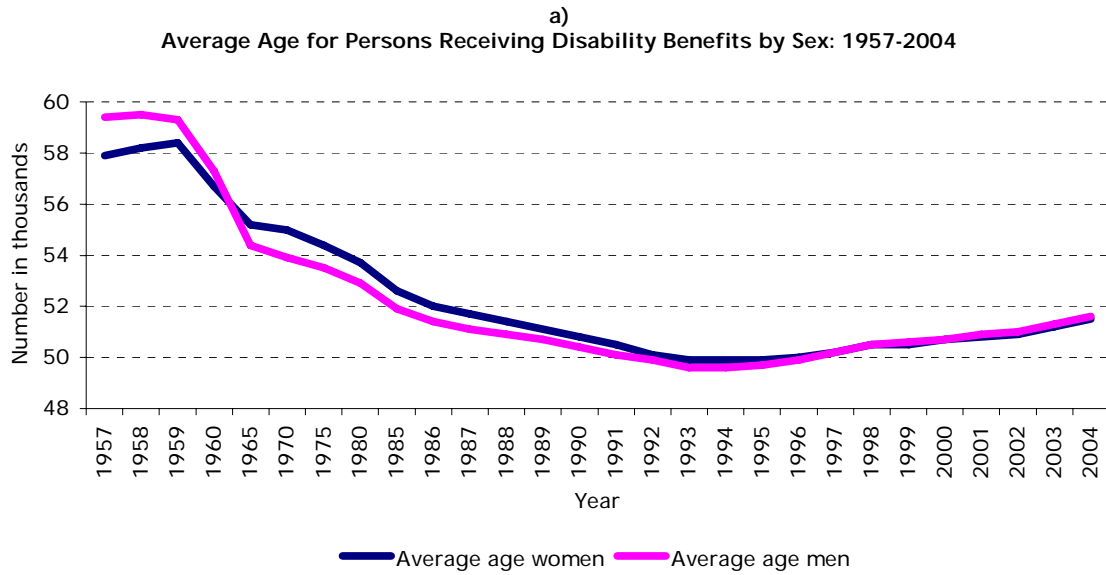


Source: SSA 2006c.

Figure 4, panel a), shows that the average age of disability beneficiaries decreased in 1957 from 58 years for women and from 59 years for men to around 50 years in 1993 for both sexes. Since then, the tendency has slightly improved, reaching in 2004 an average retirement age of 52 years for both sexes. In addition, panel b) shows for the same

year that there is an important upward in the number of disability recipients beginning at 35 years. This tendency remains for both sexes.

**Figure 4**  
Persons Receiving Disability Benefits by Age and Sex: 1957-2004

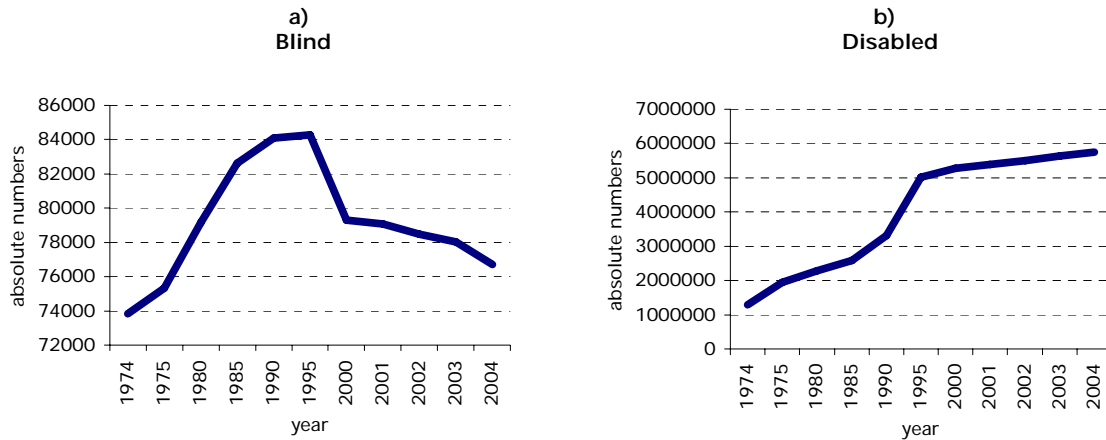


Source: SSA 2006c.

Figure 5, panel a), shows that, in contrast to disabled SSI recipients, the number of blind SSI cases increased from 1974 to 1990, and decreased ever since. On the other hand, panel b) shows that, since 1974, the number of disabled SSI recipients has followed an increasing tendency. Important to notice in this figure is that, while the tendency in the

number of blind SSI cases has importantly decreased in the period 1990 to 1995, the contrary happened to SSI disabled recipients.

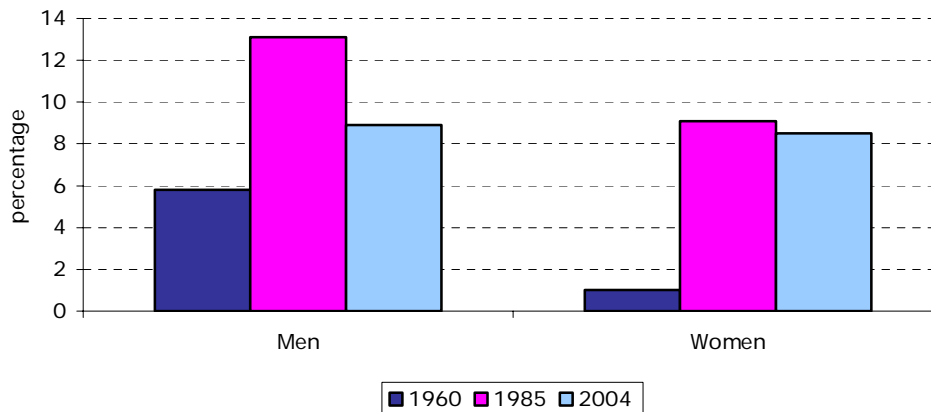
**Figure 5**  
**Number of Blind and Disabled SSI Recipients: 1974-2004**



Source: SSA 2006c.

Figure 6 shows that the percentage of conversions from DI to old-age insurance had more than doubled from 1960 to 1985 for men, and increased from 1 percent in 1960 to more than 9 percent in 1985 for women. This percentage decreased in 2004 for both sexes, reaching almost 9 percent in each case.

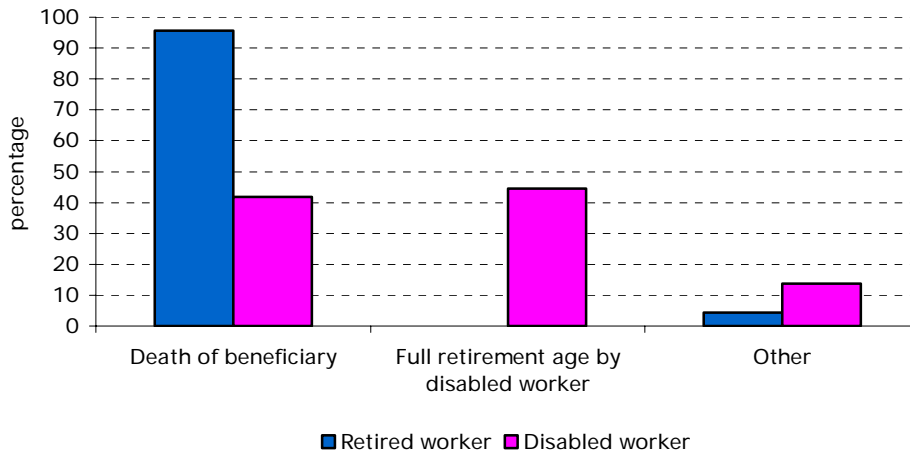
**Figure 6**  
**Conversions from Disability to Old-Age Pensions: 1960-2004**



Source: SSA 2006c.

Figure 7 shows that, in 2004, in contrast to old-age insurance, disability benefits were terminated in most cases because of reaching the full retirement age, and not because of the beneficiaries' death. Death is also an important factor to have disability benefits terminated, but it is not the most important factor for termination, supporting the issue that people use the disability insurance as an alternative for early retirement.

**Figure 7**  
**OASDI Benefits Terminated by Reason of Termination and Type of Benefit: 2004**

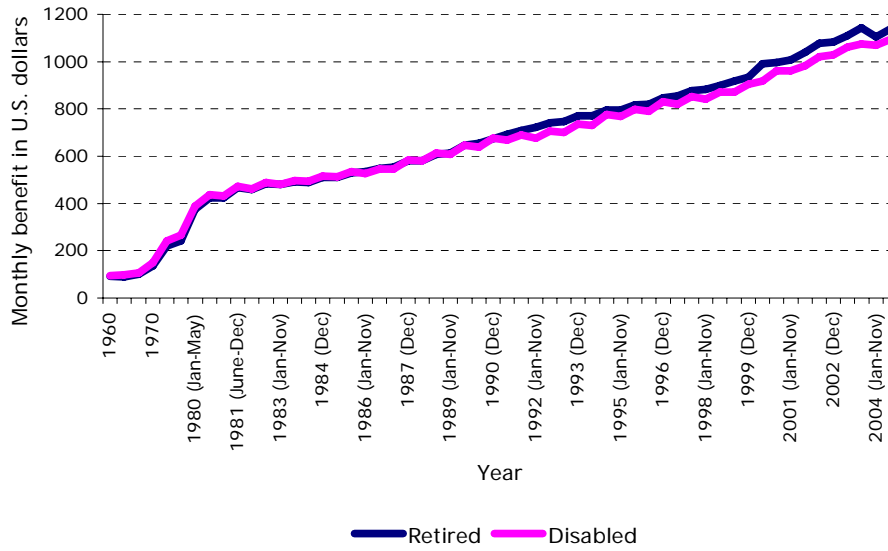


Source: SSA 2006c.

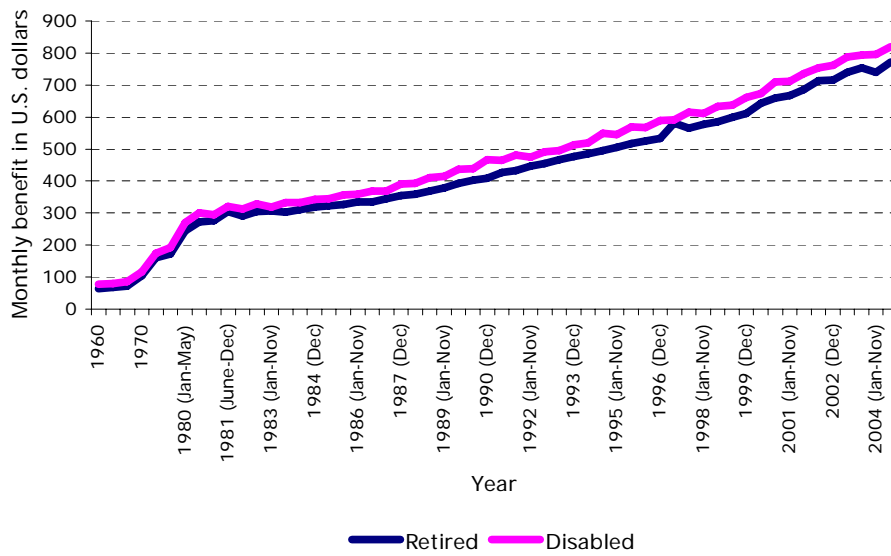
Finally, as shown in Figure 8, the amount received from DI is similar to the one received from old-age insurance for both sexes, and, for women, disability benefits are greater than old-age benefits, motivating persons to use the disability retirement insurance as early retirement.

**Figure 8**  
**Average Monthly Payment by Sex and Type of Benefit: 1960-2004**

**a) Men**



**b) Women**



Source: SSA 2006c.

In summary, the figures shown in this chapter support the fact that persons react to policy changes, in this case, using DI as an alternative for early retirement or unemployment insurance.

## V. Conclusions and Recommendations

The main purpose of this paper was to study the changes in the United States social security legislation and the incentives these changes have created in its population in order to address some conclusions and recommendations.

As it is well known, the United States has currently one of the kindest and largest social security disability systems around the world. Nevertheless, some of its policies, such as the expansion in coverage and the reduction in its eligibility requirements combined with other factors, such as high inflation, unemployment, and the scarcity of administrative resources for controlling disability awards in the 1970's, lead to an important increase in the number of disability beneficiaries, causing some financial and administrative problems to SSA budget.

Since the late 1970's, SSA has made an effort to tighten disability insurance benefits and requirements to reverse the increasing tendency in the number of disability beneficiaries. Between its early auctions were the introduction of a formula to compute disability benefits (1977) and the development of the 1980 social security amendments, which established, between others, periodic disability reviews, work incentives, and a cap on family benefits to disabled workers. Nevertheless, these amendments lead to notable social condemnation, and had to be removed. As a consequence, the number of DI beneficiaries increased again. Regarding beneficiaries with mental impairments, changes in the medical listings had the effect of increasing this category.

On the other hand, work incentive programs such as the Ticket to Work Program (2002), had been recently developed in order to make beneficiaries return to work. Nevertheless, the evidence shows that work incentive programs have proven to be difficult to develop successfully.

Regarding the most recent developments in assessing disability, SSA implemented three main initiatives intended to fundamentally improve the administration of the disability program. First, the electronic disability (eDib) was implemented in 2004, whose main objective is to change from a paper process to an entirely electronic one, in order to avoid delays. Second, the disability service improvement, whose final rules were published in 2006, is a new determination process, designed to improve the accuracy, consistency, and timelines of decision-making throughout the determination process. Nevertheless, the evidence shows that the new process also intends to strengthen control in the disability assessment. Third, to mitigate differences in determining disability and to update all the body systems in the listings of impairments, since 2004, SSA has published final rules revising the body system for cancer, kidney disease, cardiovascular diseases, skin disorders, and impairments that affect multiple body systems; the goal is to update all the

body systems in the listings within the next two years. In addition, final rules have been published that update the regulations that explain how to use the listings. Unfortunately, since this new developments has been established a few years ago, its impact can't be measured, but since the year 2000, a slightly reverse in the increasing tendency in the number of disability beneficiaries can be noted, leading to the following conclusion:

Although the growth in the number of disability beneficiaries is currently less dramatic than before, there is still some evidence of the use of the disability insurance program as an alternative for early retirement. In the United States, as well as in Europe, few persons who have the right to receive disability benefits tries to reenter the labor market, in part explaining the high unemployment rates for disabled persons. Nevertheless, important to notice is that many countries offer special employment programs for disabled persons, but generally, older persons are not taken into account in those programs, reducing the probabilities to return to the labor market. Most programs focused on those persons with strong disabilities or young persons, and rehabilitation programs are rare offered to older disabled persons. Another problem is that firms are not totally involved, making it harder to integrate disabled persons into the labor market.

The integration policies based on cash and/or in kind transfers are not sufficient for disabled persons and are expensive. Moreover, the average per capita cost in training and rehabilitation programs is significantly less than the average cost of disability transfers. Therefore, this paper recommends implementing work incentive programs taking into account the preferences for early retirement. Moreover, to prevent the usage of disability programs as an alternative for early retirement, each stage of the disability process have to be carefully designed, with the determination of disability and the monitoring process being key steps.

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