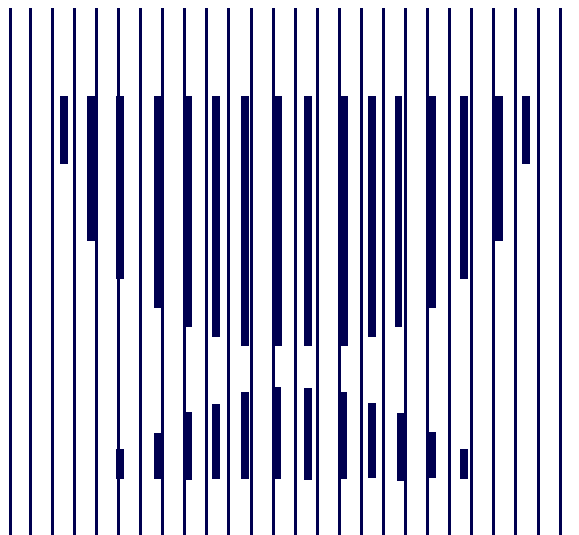




CBO MEMORANDUM

**TIME-LIMITING FEDERAL
DISABILITY BENEFITS**

February 1997



CONGRESSIONAL BUDGET OFFICE



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MEMORANDUM

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CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

NOTE

Numbers in the text and tables of this paper may not add to totals because of rounding.

Both Social Security Disability Insurance and the Supplemental Security Income disability program have grown dramatically over the past decade. Congress has responded to that growth by enacting several measures designed to reduce the size of those programs. At the request of Congressman Sam M. Gibbons when he was the ranking minority member of the Committee on Ways and Means, this memorandum examines the policy of time-limiting federal disability benefits as another option to reduce caseloads and promote increased work effort among people with disabilities. In accordance with the Congressional Budget Office's (CBO's) mandate to provide objective and impartial analysis, the memorandum contains no recommendations.

Daniel M. Mont of CBO's Health and Human Resources Division prepared this paper under the direction of Joseph R. Antos and Ralph E. Smith. The estimate of the budgetary effects from the illustrative policy option was prepared by Kathy Ruffing under the direction of Paul R. Cullinan.

CBO gratefully acknowledges the cooperation and assistance of Mary E. McKay, Charles Scott, Denny Vaughan, and Bernie Wixon of the Social Security Administration. Within CBO, valuable comments were offered by Paul R. Cullinan, Theresa J. Devine, Kathy Ruffing, Paul N. Van de Water, and W. Pete Welch. Carol Frost provided computer assistance. Julia Matson prepared the figures. Sherry Snyder edited the manuscript, and Ronald Moore and Sharon Corbin-Jallow prepared it for publication.

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SUMMARY

The past decade has been a time of dramatic growth in federal disability programs. Both Social Security Disability Insurance (DI) and the Supplemental Security Income (SSI) disability program have experienced substantial increases in their caseloads and expenditures. The number of people receiving benefits in the DI program and the real value of the sum of all benefits, which are paid to people with disabilities who have worked enough to obtain insured status, grew by nearly 58 percent between 1985 and 1995. SSI, a means-tested program, saw its caseload of people with disabilities grow more than 92 percent and its total payments increase by more than two-thirds in constant dollars.

The Congress responded to that growth by considering a variety of proposals aimed at reducing the size of those programs. The 104th Congress enacted four such measures—denying disability benefits to drug addicts and alcoholics on the basis of their substance abuse, encouraging increased funding for continuing disability reviews (CDRs) of current recipients to determine whether they should still be receiving benefits, eliminating SSI benefits for most legal aliens, and tightening the eligibility for SSI benefits for some disabled children.

The Congress may also consider placing a time limit on benefits as a way to slow the growth in, or actually reduce, federal spending. That policy, if applied to disability payments, would halt benefits to participants in DI and the SSI disability program after a certain period unless they successfully reapplied to those programs.

The Congressional Budget Office (CBO) estimates that time-limiting disability benefits for future recipients ages 18 to 50, starting in 1998, could save \$1.6 billion over the 2001-2006 period. Under the time-limiting policy used to construct that estimate, certain applicants would be awarded benefits for only three years. After that period, they would have to reapply for benefits. The estimate assumes that the Social Security Administration (SSA) would follow an aggressive schedule of continuing disability reviews in accordance with recent legislation authorizing increased funding for that purpose. In other words, CBO made the savings estimate in comparison with a policy of having all beneficiaries who were classified as "medical improvement expected" or "medical improvement possible" undergo a CDR every three years. Compared with past practices, the savings associated with a time-limited policy would be higher.

Proponents of this approach believe that many people with disabilities could return to work if they were encouraged to do so, especially if there was an adequate financial incentive. In fact, a number of studies have shown that many people who report themselves as being disabled, some of whom have conditions that could qualify them for benefits, do work. According to the Survey of Income Program and Participation, about 44 percent of nonelderly adults with disabilities were employed

in 1992, and almost two-thirds reported that they were capable of working. Evidence suggests, however, that the previous work behavior of new recipients of disability benefits is intermittent. Moreover, according to a study by the General Accounting Office (GAO), fewer than half of those who apply for benefits and are unsuccessful return to work. The extent to which disability benefits reduce work effort is therefore limited. Nevertheless, researchers have suggested that about 10 percent to 15 percent of the recent drop in labor force participation among older men can be attributed to recent increases in disability benefits.

In the long run, requiring certain recipients of disability benefits to reapply every three years could lower participation in SSI and DI by at most 3 percent and increase the labor force participation of older adults by less than 1 percent. Although those effects are not trivial, they would not completely counter the high rates of growth that federal disability programs have experienced in recent years.

Another reason to place a time limit on benefits, according to proponents, is that a permanent period of reciprocity sends a strong antiwork message to applicants. Emphasizing that benefits are not considered permanent could create the expectation that people with disabilities should take steps to reenter the workforce. That message might change people's attitudes about returning to work and even their own self-worth.

The disadvantages of moving to a time-limited strategy stem from the added administrative work it would impose. The total number of reviews processed would rise significantly in an administrative system that is already overburdened. One result could be a rise in the number of applicants who were falsely denied or falsely granted benefits. According to GAO, more than 30,000 applicants in 1992 were either mistakenly denied or mistakenly granted federal disability benefits. If an increased administrative burden led to more mistaken denials, then more disabled people would be unable to obtain benefits but would still not be able to find work. Although a small percentage of recipients would be in that position, evidence indicates that most of them would end up in poverty and about one-fourth of them would have no health insurance.

Alternatively, increasing the burden on the present system for determining disability could result in an increase in the number of awards. During the 1970s, approving borderline cases was common practice. Limiting benefits might produce a similar outcome.

A larger problem could be gaps in coverage for those readmitted to the program or recertified if provisions are not made to continue benefits during the reapplication process. About 100 days elapse from the time applicants file for benefits until they receive them, but that period can extend to well over a year for

those who are initially denied benefits and then obtain them on appeal. Continuing benefits during the application process could create problems with overpayments that would then have to be recouped from people whose denials were not overturned on appeal. A related concern is the impact on the appellate process and workloads.

Another option for trying to encourage recipients of disability benefits to work would be to expand the use of CDRs even further. In fact, the Contract with America Advancement Act of 1996 (P.L. 104-121) authorizes a substantial increase in funding for CDRs and allows for adjustments to discretionary spending caps to accommodate increased funding. Indeed, extra funding was appropriated for CDRs following the passage of that law for 1996 and 1997.

An advantage of conducting more CDRs is that it eliminates the problem of gaps in coverage. The drawback is that the message sent about the expectation of recovery and return to work may be weaker. Also, as experience indicates, funding shortages can create large backlogs in CDRs. Under a policy of time-limiting benefits, recipients' benefits would automatically end unless they successfully reapplied. Processing the new applications would place the agency under more pressure than would keeping up to date with CDRs, since not processing new applications would cause many eligible people to not receive benefits. Failing to conduct a full complement of CDRs would not result in anyone's failing to receive benefits and so might not engender as much protest.

Another drawback of conducting more CDRs is that such a policy might remove a smaller percentage of recipients from the rolls than would placing a time limit on benefits. Under current law, the SSA cannot terminate benefits as a consequence of a CDR unless it can demonstrate that the recipient's medical condition has improved. The "medical improvement" rule presumably would not matter for reapplications; thus, the reapplication process under a policy with time-limited benefits might have a slightly higher termination rate than the current CDR process.

Time-limiting benefits or increasing CDRs in DI and SSI would probably decrease the caseloads and expenditures in both programs. Such a decrease, however, would not be sufficient to reverse the recent and substantial growth in federal disability benefits.

DISABILITY PROGRAMS ADMINISTERED BY THE SOCIAL SECURITY ADMINISTRATION

The number of people participating in the nation's two major disability programs, Social Security Disability Insurance (DI) and Supplemental Security Income (SSI), has grown dramatically in recent years. That growth has focused increased attention on federal disability programs. As a result, the Congress has considered a variety of proposals aimed at toughening eligibility standards and increasing reviews of recipients. In fact, the 104th Congress enacted four such measures—denying disability benefits to drug addicts and alcoholics on the basis of their substance abuse, encouraging increased funding for reviews of current recipients to ascertain whether they still qualify for the programs providing them benefits, eliminating SSI benefits for most legal aliens, and using stricter eligibility requirements for benefits for some disabled children.

A key concern of people wishing to reform federal disability programs is that some current recipients do not work, even though they are capable of doing so, because it would mean an end to their receipt of benefits. Evidence suggests that cutting benefits or restricting the eligibility of potential recipients would increase the work effort of a portion of those currently categorized as disabled. Although such a change in work behavior would not be trivial, additional evidence suggests that many people with disabilities would not return to work even if their benefits were eliminated. In fact, fewer than half of the people applying for disability benefits who are rejected return to work. According to a study by the General Accounting Office (GAO), less than 60 percent of those whose benefits are terminated through the current review process return to work, and those who do reenter the labor force have low earnings.

As a response to the rapid growth in disability benefits and the concern about scaling back benefits to people who are incapable of providing for themselves, some policymakers have suggested putting a time limit on benefits. Under such a policy, certain participants in DI and the SSI disability program would automatically stop receiving benefits after a certain period unless they successfully reapplied to the program. Time-limiting benefits, proponents argue, would encourage recipients to return to work. Opponents of that measure, however, claim that the accompanying administrative burden would impose serious costs on the disabled population and the Social Security Administration (SSA). An alternative route—further increases in the number of reviews—could have some of the advantages of time-limiting benefits without as many of the costs. That approach, however, would probably yield smaller savings.

Social Security Disability Insurance

Disability Insurance, which is administered by the Social Security Administration, provided over \$43 billion in benefits to people with disabilities and their families in 1996. Enacted in 1956, DI now covers about 95 percent of all workers. It is a component of what is generally referred to as Social Security or, more precisely, Old-Age, Survivors, and Disability Insurance (OASDI).

The DI program is similar to the retirement component of OASDI. All workers and their employers (including the self-employed) covered by Social Security pay a tax on wages that finances the program. In return, individuals receive benefits that partially replace earnings lost because of a disability. Participation in DI is not means-tested; that is, people qualify without having to fall below some income or resource threshold. Receiving benefits is a right for all workers who attain insured status and who meet the disability criteria.¹ After two years of receiving cash payments, participants also are eligible for Medicare.

The size of the payments beneficiaries receive is determined by their earnings history and the composition of their family. In 1995, the average monthly payment to insured workers was about \$680. Men's average benefits were higher than women's—\$760 per month compared with \$550—because men typically work more years than women and earn higher wages.

Disability determinations are made by state agencies known as disability determination services. Those agencies are under direction from the SSA and are subject to review. The definition of disability those agencies use is based on a person's physical and mental ability to work for pay. Specifically, successful applicants must be deemed unable to engage in "substantial gainful activity," which the SSA defines as generally earning more than \$500 per month. Although one definition of disability is supposed to apply nationally, federal court decisions cause standards to vary from region to region. Those varying standards are one reason that award rates differ significantly among states.

A disabling condition, however, is not always seen as permanent. In fact, about one-half of new recipients of DI benefits are categorized as "medical improvement expected" or "medical improvement possible." The SSA is required

1. Workers are insured for disability if they are fully insured for Old-Age and Survivors Insurance and have worked and been covered for a minimum of 20 quarters during the 40-quarter period ending in the month they became disabled. Workers under age 31 must have quarters of coverage equal to at least half of the quarters that elapsed between their 21st birthday and the onset of their disability. In no case, however, can benefits be paid to a worker with fewer than six quarters of coverage. A quarter of coverage in 1996 was equal to \$640 in earnings, not three months of work. A maximum of four quarters can be earned in a calendar year.

to conduct a continuing disability review (CDR) of those individuals every three years. The rest of the recipients, approximately one-half of the total, are classified as "medical improvement not expected" and are supposed to undergo a CDR only once every seven years. As discussed later, however, the SSA has built up a large backlog of uncompleted CDRs.

Several provisions within the DI program are designed to promote a return to work. Those provisions include:

- o Allowing work expenses related to a recipient's impairment to be subtracted from earnings when determining whether he or she is engaged in substantial gainful activity;
- o Allowing a trial work period during which earnings do not affect benefit levels and after which, for the next 36 months, former recipients can receive DI benefits during any month they do not engage in substantial gainful activity;
- o Extending Medicare coverage to former DI beneficiaries during this 36-month period plus three months, and allowing those not returning to the DI rolls to purchase Medicare coverage; and
- o Funding a vocational rehabilitation program that DI recipients are obligated to participate in if referred by a state disability determination service and accepted by the rehabilitation program.

Supplemental Security Income

Supplemental Security Income, which is also administered by the SSA, provides cash benefits to people with disabilities as well as to older people who have low income and few resources. Enacted in 1972 to replace the programs for the blind, disabled, and aged, it differs from OASDI in that benefits are not directly related to previous work experience and eligibility for the program is means-tested. In most states, people who also qualify for SSI automatically qualify for Medicaid as well.² Many states also give SSI recipients a supplemental payment in addition to the federal benefit.

2. Most states are required to include SSI recipients in their Medicaid programs. States, however, are allowed to use more restrictive eligibility requirements for Medicaid receipt if those standards were in place at the time SSI was enacted. There are 12 such states.

In December 1995, the average monthly payment to recipients of federal SSI disability benefits was approximately \$365. Adding in state supplemental payments raised the average amount received by those qualifying for federal benefits to about \$390.³

SSI has several provisions to encourage recipients to increase their work effort. Those provisions include:

- o Funding a vocational rehabilitation program that SSI recipients are obligated to participate in if referred by a state disability determination service and accepted by the rehabilitation program;
- o Allowing people who leave the program because of increased income or resources to return within 12 months without a new application if their income or resources fall back below the program's threshold;
- o Providing continued Medicaid benefits if earnings exceed the program's threshold, as long as former recipients are still certified to be disabled, have no other health insurance, and their income is insufficient to replace Medicaid benefits;
- o Excluding some resources from the means test if they are intended to be used for achieving self-support (for example, to purchase specialized training or equipment);
- o Excluding from the means test some earnings that are needed to cover certain work expenses; and
- o Reducing benefits by only half of earned income (over the \$65 disregard) as opposed to the dollar-for-dollar decrease for unearned income (over the \$20 disregard).

As of 1996, the SSA is also required to undertake a small volume of continuing disability reviews for SSI recipients. If the SSA finds recipients capable of engaging in substantial gainful activity, it terminates them from the program.

Some people receive both SSI benefits and DI benefits. Those people, referred to as concurrent beneficiaries, have worked enough to qualify for cash payments from the DI program, but those payments are not large enough to

3. Over 37 percent of recipients of federal SSI benefits in 1996 received an average of more than \$100 per month in state supplemental payments.

disqualify them for SSI benefits. Their SSI benefits are reduced, however, depending on the amount of money they receive from the DI program.

Recent Growth in Federal Disability Programs

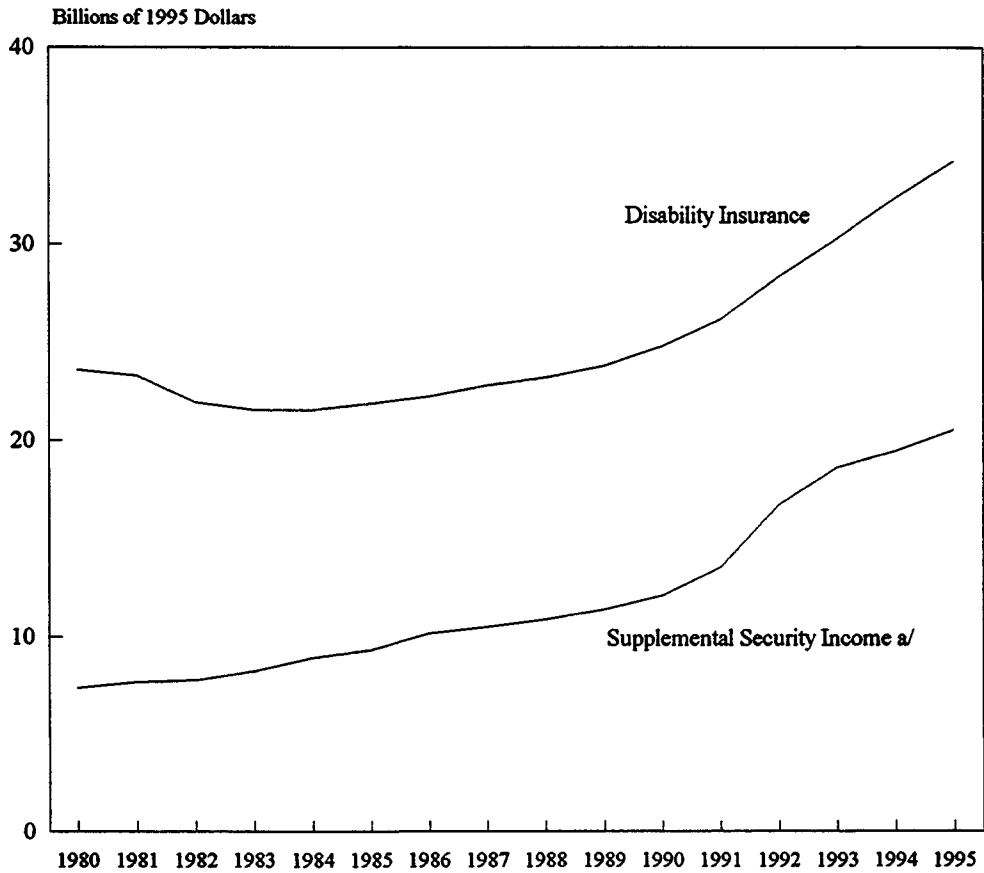
The recent growth in DI and SSI has been striking. DI caseloads grew nearly 58 percent from 1985 to 1995, from almost 2.7 million to nearly 4.2 million. The number of new recipients in 1995 was about 646,000—over 71 percent higher than in 1985. As awards grew, the termination rate slipped, implying that people were receiving DI benefits longer.

Total benefits paid out by DI have risen at about the same rate as caseloads, after adjusting for inflation. In 1995, benefits totaled over \$40 billion—the largest amount ever paid out by the program.⁴ After adjusting for inflation, the increase over the amount paid out in 1985 was more than 50 percent.⁵ Average benefits over that period remained roughly the same in constant dollars.

Participation in the SSI program for the disabled also rose rapidly. From 1985 to 1995, the caseload grew 92 percent, from about 2.6 million to over 5 million.⁶ In 1995, payments to disabled SSI recipients totaled \$21 billion.⁷ That amount has increased every year for at least the past 15 years (see Figure 1).⁸ From 1990 to 1995, federal SSI payments to the blind and disabled increased by about two-thirds in constant dollars.

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4. A total of \$34 billion was paid out in monthly benefit checks. The rest of the \$40 billion consisted of retroactive payments resulting from the lengthy process of determining disability.
 5. The consumer price index grew almost 42 percent from 1985 to 1995, from 107.6 to 152.4.
 6. The disabled population in SSI includes roughly 700,000 people age 65 years or older. In the Social Security program, the disabled are converted to the Old-Age and Survivors Insurance program at age 65, but no such reclassification occurs in SSI.
 7. The \$20 billion includes only federal SSI payments. An additional \$2.2 billion in state supplemental payments was administered by the federal government, and about \$350 million was paid directly by the states.
 8. A small group of those beneficiaries, roughly 200,000 in 1995, receive state supplemental payments but no federal benefits.

**FIGURE 1. FEDERAL SPENDING ON DISABILITY BENEFITS FOR
DISABILITY INSURANCE AND SUPPLEMENTAL SECURITY
INCOME, 1980-1995**



SOURCE: Congressional Budget Office using data from the Social Security Administration.

a. Includes only federal payments. Supplemental payments made by states, even state payments administered by the federal government, are not included.

DISABILITY AND WORK BEHAVIOR

How many recipients of federal disability benefits are capable of returning to work? To what extent do disability benefits reduce work effort? Moreover, how does work effort differ between successful and unsuccessful applicants? The answers to those questions are of fundamental importance to any policy change aimed at trying to restrict eligibility for disability benefits or promote work effort among people with disabilities.

Evaluating the research that attempts to answer those questions, however, is complicated by the problem of comparing differing definitions of disability. Definitions of disability abound, and alternative definitions can yield different results.

According to regulations in the Social Security Disability Insurance and Supplemental Security Income programs, people qualify for benefits if they are deemed incapable of sustained work. Nevertheless, some recipients do work, although generally below the limits of substantial gainful activity. If one measures disability not by reciprocity of disability benefits but by responses to survey questions that ask people to identify themselves as being disabled, more people with disabilities work. A more restrictive definition obviously leads to the conclusion that few, if any, people with disabilities are capable of obtaining employment. The choice of definition used in any discussion of those issues, therefore, should be made explicit.

The information presented in this memorandum indicates that although the majority of people receiving disability benefits cannot work, some recipients are able to do so. Furthermore, reducing people's expectations about the amount of benefits and length of time they could receive them is likely to increase their participation in the labor force. Nevertheless, efforts to encourage DI and SSI recipients to work cannot be expected to counter much of the continuing growth in those programs.

Different Definitions of Disability

By the nature of program rules, people qualifying for SSI disability benefits or DI benefits are considered by the government to be incapable of sustained work. Many people who have an impairment on Social Security Administration's listing of qualifying medical conditions, however, are employed.⁹ What does it mean to be disabled? The definition SSA uses to determine eligibility for benefits may not

9. See H.P. Brehm and T. V. Rush, "Disability Analysis of Longitudinal Health Data: Policy Implications for Social Security Disability Insurance," *Journal of Aging Studies*, vol. 2, no. 4 (1988), pp. 379-399.

coincide with what people report in survey data used to research the effects of disability on work behavior. Defining disability is a difficult exercise, and the way it is defined can substantially influence the findings of any empirical study.

The data used in this memorandum are based on the self-reporting of disabilities. Respondents to the Survey of Income and Program Participation (SIPP) were classified as disabled if they reported that they have a health condition or disability that limits the amount or type of work they can do. That definition is not equivalent to the qualifications for receiving federal disability benefits. A person could be limited in his or her work effort because of a disability but still be able to exceed the SSA's standard of substantial gainful activity. Therefore, finding that many people who identify themselves as disabled are gainfully employed does not necessarily imply that many DI and SSI recipients are capable of similar work effort. Furthermore, using that definition, two people with the same medical condition (for example, blindness) may differ when it comes to labeling themselves as disabled. In part, respondents' answers to the survey question on disability depend on factors such as their age and the type of work they performed before becoming disabled.

The number of people receiving DI or SSI disability benefits falls in between the number of people with disabilities as measured by the most inclusive and most restrictive definitions. According to the self-reported definition used in the SIPP, 18.5 million adults between the ages of 18 and 64 were disabled in 1992, just under 12 percent of that population. Using a measure based on the ability to perform "major life activities," the National Health Interview Survey (NHIS) found that in 1992, only 15.7 million adults were disabled in the same age group (about 10 percent of that population), although almost half of those people reported they were able to do some work.¹⁰ Using a more restrictive definition—namely, limitations on the ability to perform at least one activity of daily living (ADL) such as bathing, eating, dressing, using the toilet, or transferring from bed to chair—data from SIPP suggest that only 3.4 million nonaged adults were disabled that year. A threshold of three ADL restrictions yields an estimate of only 1.1 million adults with disabilities. By comparison, about 7 million adults received DI or SSI benefits in 1992, under 5 percent of the nonaged adult population. That figure is slightly less than the percentage of NHIS respondents claiming to be unable to work, and in between the number of people who identify themselves as having a disability and those with ADL restrictions.

10. A "major life activity" is defined as the predominant age-appropriate social role. For example, the major life activity for children under 5 is "playing." For adults ages 18 to 69, it is "working" or "keeping house."

Work Behavior of Adults with Disabilities

People with disabilities demonstrate a wide range of work behavior. Although they work less than people without disabilities, many of them are employed.¹¹ Many, however, are out of the labor force. Not surprisingly, recipients of federal disability benefits work significantly less than those not receiving benefits. The key question, however, is to what extent, if any, the availability of benefits encourages people to limit their work behavior.

Work Behavior of Adults with Disabilities Who Are Not Recipients. According to the SIPP, about 44 percent of disabled adults between the ages of 18 and 64 who were not receiving disability benefits in 1992 were working (see Table 1). Almost 21 percent reported that they were capable of working, leaving more than one-third who were not receiving benefits claiming to be unable to work. Presumably, those nonworkers were relying on assets, other family members, or other government programs for their financial support, or were applying for benefits.

Although only 44 percent of people with disabilities who were not receiving benefits were employed, they represent a majority of the 60 percent of those who were working at the time their disability began (see Table 2). Approximately three-fourths of the people who were working at the reported onset of their disability were still employed in 1992.¹² Conversely, a rough estimate is that one-fourth of people who become disabled but do not receive government benefits stop working. Of course, some of them might receive benefits in the future. Other research, using the Health and Retirement Survey, also suggests that roughly one-fourth of adults who become disabled stop working and never work again.¹³

The definition of disability used in this paper (that is, the self-reported presence of a disability or health condition limiting the amount or type of work a person can do) may explain the finding that about 70 percent of DI recipients were working at the onset of their disability. Perhaps they reported the disabling condition as having begun while they were working; but by the time they considered

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11. For the remainder of this paper, "people with disabilities" refers to people who report themselves as having a condition that limits the amount or type of work they can do, unless otherwise noted.
 12. The SIPP did not ask disabled recipients who were currently employed whether they were also working at the time of onset. This estimate therefore assumes that everyone who was employed when surveyed in 1992 was working when they became disabled. Forty-four percent of disabled adults who were not receiving benefits were working in 1992, and 60 percent had been working at the time of onset ($44/60$ is 0.73, or about three-fourths).
 13. See M.C. Daly and J. Bound, *Worker Adaptation and Employer Accommodation Following the Onset of a Health Impairment*, Working Paper No. 5169 (Cambridge, Mass.: National Bureau of Economics, July 1995).

TABLE 1. WORK BEHAVIOR OF ADULTS AGES 18 TO 64 WITH DISABILITIES,
BY PROGRAM PARTICIPATION AND SEX, 1992 (In percent)

	DI Only	SSI and DI	SSI Only	Neither
All				
Working now	5.3	13.5	11.6	44.1
Not working, but able to	8.2	4.1	10.2	20.6
Not working and unable to	<u>86.5</u>	<u>82.4</u>	<u>78.3</u>	<u>35.3</u>
Total	100.0	100.0	100.0	100.0
Male				
Working now	7.4	14.1	15.1	50.9
Not working, but able to	8.2	2.6	10.3	19.2
Not working and unable to	<u>84.4</u>	<u>83.3</u>	<u>74.6</u>	<u>29.8</u>
Total	100.0	100.0	100.0	100.0
Female				
Working now	2.4	13.1	9.4	37.7
Not working, but able to	8.2	5.3	10.1	21.9
Not working and unable to	<u>89.5</u>	<u>81.6</u>	<u>80.5</u>	<u>40.4</u>
Total	100.0	100.0	100.0	100.0

SOURCE: Congressional Budget Office using data from the 1992 Survey of Income and Program Participation.

NOTE: DI = Disability Insurance; SSI = Supplemental Security Income.

TABLE 2. PERCENTAGE OF ADULTS AGES 18 TO 64 WITH DISABILITIES WHO WERE WORKING AT THE ONSET OF THEIR DISABILITY, BY PROGRAM PARTICIPATION AND SEX, 1992

	DI Only	SSI and DI	SSI Only	Neither
All	69.3	39.9	26.6	59.7
Male	75.5	32.1	34.0	65.8
Female	60.1	46.0	22.1	54.1

SOURCE: Congressional Budget Office using data from the 1992 Survey of Income and Program Participation.

NOTE: DI = Disability Insurance; SSI = Supplemental Security Income.

condition sufficient to "limit the amount or type of work" they could do, they had already stopped working in expectation that the disability would worsen.

Work Behavior of Recipients of Certain Federal Disability Benefits. DI recipients are much more likely to be employed at the onset of their disability than are SSI recipients. Over 69 percent of DI-only recipients were working when they became disabled, compared with just under 27 percent of SSI-only recipients. That result is not surprising. Attachment to the labor force is a condition for receiving DI benefits, and SSI recipients have lower earnings since their benefits are means-tested. The total amount of work experience for both groups, however, is undoubtedly higher than those figures indicate. To qualify for DI, recipients must have extensive work histories. Research indicates that most recipients of SSI disability benefits have had significant periods of employment. One study found that almost 80 percent of people with disabilities receiving SSI during the 1980s had work experience, and that the mean level of experience for those people was over 11 years.¹⁴ Of course, the average amount of their earnings was small; over 80 percent of them had yearly earnings under \$6,000.

A greater percentage of SSI recipients worked while receiving benefits than did DI recipients, although their earnings were obviously low since they continued to receive cash benefits. Their higher propensity to work might have resulted from the fact that SSI benefits are lower than DI benefits, giving the SSI recipients a stronger incentive to supplement their income or try to work their way off the program. Another explanation is that SSI recipients may not be as impaired as DI recipients. Only about 14 percent of DI recipients who were not also receiving SSI reported themselves either working or capable of working.¹⁵ Among SSI recipients, that figure was about 20 percent.

Men were more likely, on average, to be working (see Table 1). For both sexes, however, recipients were less likely either to work or to report themselves capable of working. Men were also more likely to be working at the onset of their disability, except men receiving benefits from both DI and SSI.

14. See C.G. Scott, "Disabled SSI Recipients Who Work," *Social Security Bulletin*, vol. 55, no. 1 (Spring 1992), pp. 26-36.

15. Adding the 5.3 percent who are working now and the 8.2 percent that report themselves capable of working yields 13.5 percent of DI-only recipients who do not view their condition as making them unable to work. The 5.3 percent of DI recipients who are working is very similar to the 4 percent who reported working at the time benefits began. See J. Hennessy and L.S. Muller, "Work Efforts of Disabled-Worker Beneficiaries: Preliminary Finding from the New Beneficiary Follow-up Survey," *Social Security Bulletin*, vol. 57, no.3 (Fall 1994), pp. 42-51. In that study, however, an additional 18 percent of beneficiaries started to work some time after they began receiving benefits, but a sizable portion of those people subsequently left the DI rolls.

Disability Benefits and Work Behavior

A number of studies have discovered a link between the expected value of receiving disability benefits and participation in the labor force. The strength of that link, however, is subject to debate. The General Accounting Office has found that roughly half of the people who either were denied DI benefits upon application or were terminated from the program return to work.¹⁶ That finding demonstrates substantial variation in the response to the availability of disability benefits—many people return to work but many do not. What emerges from those analyses is a complex picture of a heterogeneous population.

Nevertheless, relatively few people leave the DI program by returning to work. Fewer than 6,000 of the more than 3.7 million recipients left the rolls to return to work on their own accord in 1993.¹⁷ That figure amounts to fewer than two out of every 1,000 recipients. Most people leave the DI rolls because they either age into the retirement part of Old-Age, Survivors, and Disability Insurance (179,000 in 1993) or die (164,000). Fewer than 5,000 left the DI program as a result of continuing disability reviews in 1993. The number of terminations was low largely because the SSA had until recently performed a fairly small number of CDRs—50,000 in 1993.¹⁸

The rate at which adult recipients of SSI disability benefits return to work is not available but is probably low. One way of gauging the number of people who leave the SSI program because they return to work is to examine the number of former SSI cash recipients who are still receiving Medicaid. Those recipients, known as 1619b recipients, are receiving Medicaid because they did not have health insurance even while working and their income is not large enough to allow them to replace their Medicaid benefits in the private insurance market. Judging from the number of 1619b recipients, the number of SSI beneficiaries who stop receiving benefits because they return to work is small. From 1990 to 1994, the number of 1619b recipients grew by about 17,000, to a total of 41,000. Over the same period, the number of people with disabilities on SSI rose by about 1.5 million, to a total of 4.7 million.

16. General Accounting Office, *Social Security Disability: Denied Applicants' Health and Financial Status Compared with Beneficiaries*, GAO/HRD-90-2 (November 1989).

17. D. Koitz, G. Kollmann, and J. Neiser, *Status of the Disability Programs of the Social Security Administration, 1994*, CRS Report for Congress 94-477 EPW (Congressional Research Service, June 1994), p. 16.

18. As discussed later, the recently signed Contract with America Advancement Act encourages adequate funding for substantially more CDRs through 2002. Almost 330,000 CDRs were completed in 1996.

The growth in the number of 1619b recipients, however, is not an exact measure of how many SSI recipients return to work, because no solid information exists on why people stop being 1619b recipients. Reasons include a return to receiving cash benefits, having an income high enough to be removed from the program, and death. Nevertheless, compared with the number of people on SSI, the number of 1619b recipients is very small—about 1 percent.

These results do not imply that SSI recipients rarely work while receiving SSI benefits. Research indicates that during the first 10 years of reciprocity, almost 34 percent of people receiving benefits worked at least one year and that 9 percent worked more than five years.¹⁹ In most cases, however, their earnings were not sufficient to make them ineligible for benefits.

The Impact of Expected Benefits on the Labor Force Participation of the Disabled.

The estimated impact of the level of cash disability benefits on the population's work behavior varies substantially across studies.²⁰ The preponderance of evidence, however, suggests that a significant connection exists between the value of disability benefits and the work effort of older men. Based on research on the sensitivity of work behavior to the availability of disability benefits, an increase in benefit levels of 10 percent would cause the labor force participation of adult males ages 45 to 64 to decrease between 1 percent and 2 percent.²¹

This level of responsiveness translates into a moderate impact on the supply of labor. From 1968 to 1978, the labor force participation of men ages 55 to 64

19. See L. Scott Muller, C.G. Scott, and B.V. Bye, "Labor-Force Participation and Earnings of SSI Disability Recipients: A Pooled Cross-Sectional Time Series Approach to the Behavior of Individuals," *Social Security Bulletin*, vol. 59, no. 1 (Spring 1996), pp. 22-42.

20. See J. Bound, "The Health and Earnings of Rejected Disability Applicants," *American Economic Review*, vol. 79, no. 3 (1989), pp. 482-503; D. Parsons, "The Decline in Male Labor Force Participation," *Journal of Political Economy*, vol. 88, no. 1 (1980), pp. 117-134; B. Kreider, "Labor Force Responsiveness to Social Security Disability Insurance: A Simultaneous Choice Model of Applications to SSDI, Eligibility, and Lifetime Opportunity Costs" (working paper, University of Virginia, 1995); R. H. Haveman and B. L. Wolfe, "Disability Transfers and Early Retirement: A Causal Relationship?" *Journal of Public Economics*, vol. 24, no. 1 (1984), pp. 47-66; J. Halpern and J. A. Hausman, "Choice Under Uncertainty: A Model of Applications for the Social Security Disability Insurance Program," *Journal of Public Economics*, vol. 31, no. 2 (November 1986), pp. 131-162; J. Gruber and J. D. Kubik, *Disability Insurance Rejection Rates and the Labor Supply of Older Workers*, Working Paper No. 4941 (Cambridge, Mass.: National Bureau of Economic Research, November 1994).

21. Less work has been done examining women's responsiveness to benefit levels. Those studies suggest a slightly higher responsiveness for women, especially female heads of households. See H.W. Hoynes and R. Moffitt, *The Effectiveness of Financial Work Incentives in DI and SSI: Lessons from Other Transfer Programs*, IRP Discussion Paper No. 1073-95 (University of Wisconsin-Madison, October 1995).

decreased by about 12 percentage points at the same time that average real DI benefits increased by 43 percent after being adjusted for inflation. Some researchers have claimed that rising benefits explain the lion's share of the drop-off in work effort.²² More recent studies, however, have found that most of the decline stems from other factors. Researchers estimate that between 10 percent and 15 percent of the 12 percentage-point fall in labor force participation among older men can be attributed to the rise in benefits.²³

Proposals for placing a time limit on benefits from disability programs do not include reductions in the benefits paid on a monthly basis. Rather, they lessen the expected value of the benefits recipients receive over their lifetime. In essence, that is a reduction in benefits; thus, a subsequent increase in labor force participation might accompany it along the scale suggested by the research cited previously—that is, a 1 percent increase in labor force participation with a 10 percent drop in benefits. In fact, estimates of the impact of different benefit levels on labor force participation are based not so much on different amounts being paid but on different chances of being awarded benefits in the first place. Using those estimates to gauge the response to a change in the expected value of benefits under a time-limiting policy that affects the likelihood of receiving benefits seems appropriate. CBO used that approach in its analysis of a proposal for time-limiting disability benefits.

Comparing Recipients with Those Denied Benefits or Terminated from Receiving Them. One way to gauge the work capabilities of the disabled is to examine applicants who have been denied entry into the federal disability system. Denied applicants presumably view themselves as disabled or they would not have applied for benefits. A state disability determination service, however, did not believe that disabilities prohibited them from engaging in substantial gainful activity. Therefore, people who have been refused benefits are probably more capable of working than many who report themselves as disabled. Or at least that was the opinion of the disability determination service. Thus, if recipients were removed from the DI program, their work behavior would be, at most, the same as those applicants who were denied benefits. The General Accounting Office published a study in 1989 focusing on that group.²⁴ Some of the results are summarized in Table 3. In

22. Parsons, "The Decline in Male Labor Force Participation"; F. Slade, "Older Men: Disability Insurance and the Incentive to Work," *Industrial Relations*, vol. 23, no. 2 (1984), pp. 260-269.

23. Bound, "The Health and Earnings of Rejected Disability Applicants"; Halpern and Hausman, "A Model of Applications for the Social Security Disability Insurance Program"; R. Haveman, B. Wolfe, and J. Warlick, *Behavioral Responses to Social Security Retrenchment: Estimates from a Trichotomous Choice Model*, IRP Discussion Paper No. 789-85 (University of Wisconsin-Madison, 1985); Kreider, "Labor Force Responsiveness to Social Security Disability Insurance."

24. General Accounting Office, *Social Security Disability*.

TABLE 3. SELECTED RESULTS FROM THE GAO STUDY ON APPLICANTS TO THE SOCIAL SECURITY DISABILITY INSURANCE PROGRAM IN 1984

	Applicants Receiving Benefits ^a	Applicants Denied Benefits ^b		Removed from Program ^c	
		All	Working		Not Working
Average Age	54	45	n.a.	n.a.	42
Percentage with Fair or Poor Health Status	78	68	52	80	64
Percentage Needing Help with Personal Care	50	28	12	40	27
Poverty Rate	43	51	36	61	34
Percentage with No Health Insurance	n.a.	27	29	25	19
Percentage on Medicaid	n.a.	12	4	18	7
Percentage Who Work	8	42	100	0	58

SOURCE: Congressional Budget Office using data from a 1987 survey by the General Accounting Office reported in GAO, *Social Security Disability: Denied Applicants' Health and Financial Status Compared with Beneficiaries*, GAO/HRD-90-2 (November 1989).

NOTE: n.a. = not available.

- a. Data are for people who successfully applied for Disability Insurance (DI) benefits in 1984.
- b. Data are for people who applied for DI benefits in 1984 but were turned down and still not receiving Old-Age, Survivors, and Disability Insurance (OASDI) benefits as of 1987.
- c. Data are for people who were initially awarded DI benefits before 1981 but were terminated from the program between 1981 and 1984 after being reviewed by the Social Security Administration (SSA). Many of those terminated subsequently reapplied for benefits. In June 1987, 63 percent were reenrolled.

particular, of those denied benefits in 1984 who were still not receiving any benefits from OASDI in 1987, only 42 percent were working.

The question remains as to why 58 percent of applicants who were deemed able to work did not. Several explanations are possible. First, those applicants may have been mistakenly denied; that is, they may have been truly incapable of securing gainful employment. Supporting that hypothesis is the fact that the percentage of denied applicants who were not working and reported needing help with personal care was almost as large as the percentage of successful applicants who needed help—40 percent as opposed to 50 percent. In comparison, only 12 percent of denied applicants who were working needed help. Similarly, 80 percent of people who were denied benefits and were not working reported fair or poor health status, which is very close to the 78 percent of program recipients who reported fair or poor health status and significantly more than the 52 percent who were denied benefits and returned to work.

A second explanation for the failure to return to work is simply that the denied applicants may not have found adequate or appropriate employment even if they were physically and mentally capable of performing some type of work. Even if they could find employment, it might not have paid enough to induce them to accept it. Perhaps their household had other sources of income that enabled them not to work, or maybe their expected wages were low enough that they preferred leisure to labor. In fact, the more education those people had (and thus the higher their potential wages), the more likely they were to return to work. Of course, those with higher levels of education are capable of doing a wider variety of nonmanual jobs, and so their disability might impose fewer limits on their employability. In any event, denied applicants who were not employed were generally not well off; over 60 percent of denied applicants who were not employed had income below the poverty rate.

Third, some analysts have claimed that the eligibility criteria make people less employable and may even quell their desire to work. That explanation is hard to verify, but several factors support it. First, applicants to DI must be out of work before they apply for benefits. If currently employed, people who apply for benefits would have to sever ties with an employer who, knowing the applicant, might have been more willing to make accommodations in the workplace than another employer.²⁵ Furthermore, unsuccessful applicants wishing to reapply must remain out of the workforce. Close to 30 percent of denied applicants end up receiving DI benefits on the basis of a later application, according to the GAO study.

25. See Daly and Bound, *Worker Adaptation and Employee Accommodation*.

In addition, some people claim that the application procedure itself highlights to applicants exactly what their limitations are and undermines their perception of their ability to work. If that explanation is valid, a portion of the 58 percent of denied applicants who were not working when surveyed would have been working if the DI program did not exist.

The same basic conclusions can be drawn by comparing recipients who were terminated from the program with those who are still receiving benefits (see Table 3). People terminated from DI were less likely than recipients to need personal care or be poor. Also, more of them had access to health insurance. Finally, recipients who were removed from the program and did not subsequently return upon reapplication were more likely to work than were those who were denied benefits in the first place (58 percent compared with 42 percent). Nevertheless, 42 percent of those terminated from DI did not return to work, and over one-third of them were in poverty.

Family Support for Working While Disabled

Some analysts have suggested that living arrangements might affect whether people with a disability can work. Having someone at home to help with transportation, therapy, and the extra costs associated with working might make it easier for people who have disabilities to cope with the special problems they encounter in working. In fact, adult DI and SSI recipients are much more likely to be living alone or not with family members than are other adults who have disabilities. Over 26 percent of DI recipients and almost 38 percent of SSI recipients are not living with family members, compared with under 18 percent of disabled nonrecipients.

Closer inspection of the data, however, does not support the argument that living arrangements may enable an individual with disabilities to work. People with disabilities who do not receive DI or SSI are no more likely to live with a family member if they are working than if they are not. In both cases, slightly over 17 percent are not living with their family (see Table 4). Furthermore, both male and female recipients of DI benefits living with family members are less likely to be working at the time of the onset of their disability (see Table 5). Approximately 5 percent of married men and male family heads who are DI beneficiaries work, compared with about 13 percent of those living on their own or with unrelated individuals (see Table 6). One possible explanation is that men who are not living with other family members may have less household income, which raises the relative value of any earnings. Another explanation is that men with disabilities who are more capable of working and looking after themselves may not be as likely to move in with family members.

TABLE 4. LIVING ARRANGEMENTS OF ADULTS AGES 18 TO 64 WITH DISABILITIES, BY PROGRAM PARTICIPATION AND SEX, 1992 (In percent)

	All	Male	Female
Disability Insurance			
Married ^a	50.5	55.7	43.6
Not married, living with family	23.0	22.1	24.3
Not married, not living with family	<u>26.4</u>	<u>22.1</u>	<u>32.1</u>
Total	100.0	100.0	100.0
Supplemental Security Income			
Married ^a	31.4	36.2	28.3
Not married, living with family	30.6	25.6	34.0
Not married, not living with family	<u>37.9</u>	<u>38.2</u>	<u>37.8</u>
Total	100.0	100.0	100.0
Neither Program, Working			
Married ^a	65.7	70.8	58.1
Not married, living with family	16.7	13.1	22.1
Not married, not living with family	<u>17.6</u>	<u>16.1</u>	<u>19.8</u>
Total	100.0	100.0	100.0
Neither Program, Not Working^b			
Married ^a	60.5	61.7	59.7
Not married, living with family	22.2	18.6	24.8
Not married, not living with family	<u>17.3</u>	<u>19.7</u>	<u>15.6</u>
Total	100.0	100.0	100.0

SOURCE: Congressional Budget Office using data from the 1992 Survey of Income and Program Participation.

a. Includes married people living with their spouse, or not with their spouse but with other family members.

b. Not working is defined as earning less than \$500 per month.

TABLE 5. PERCENTAGE OF ADULTS AGES 18 TO 64 WITH DISABILITIES WHO WERE WORKING AT THE ONSET OF THEIR DISABILITY, BY PROGRAM PARTICIPATION AND HOUSEHOLD TYPE, 1992

	Disability Insurance	Supplemental Security Income	Neither
All	64.4	30.1	59.7
Married	72.5	29.0	61.1
Male, Not Married			
Living with family	56.2	17.8	61.3
Not living with family	73.6	49.7	64.5
Female, Not Married			
Living with family	41.5	22.0	51.2
Not living with family	58.6	33.6	60.1

SOURCE: Congressional Budget Office using data from the 1992 Survey of Income and Program Participation.

NOTE: The data underlying the percentages shown above for Disability Insurance (DI) and Supplemental Security Income (SSI) also include adults with disabilities who receive benefits under both programs. About 17 percent of DI recipients receive SSI, and 27 percent of SSI recipients also receive DI.

TABLE 6. WORK BEHAVIOR OF ADULTS AGES 18 TO 64 WITH DISABILITIES, BY PROGRAM PARTICIPATION AND HOUSEHOLD TYPE, 1992 (In percent)

	Disability Insurance	Supplemental Security Income	Neither
All			
Working now	6.7	12.1	44.1
Not working, but able to	7.5	8.5	20.6
Not working and unable to	<u>85.8</u>	<u>79.4</u>	<u>35.3</u>
Total	100.0	100.0	100.0
Married			
Working now	5.5	16.8	45.6
Not working, but able to	6.4	8.6	21.7
Not working and unable to	<u>88.1</u>	<u>74.6</u>	<u>32.7</u>
Total	100.0	100.0	100.0
Male, Not Married			
Living with family			
Working now	3.9	17.6	47.3
Not working, but able to	15.0	5.8	20.1
Not working and unable to	<u>81.1</u>	<u>76.7</u>	<u>32.6</u>
Total	100.0	100.0	100.0
Not living with family			
Working now	12.8	12.4	47.0
Not working, but able to	7.5	6.1	16.8
Not working and unable to	<u>79.7</u>	<u>81.4</u>	<u>36.2</u>
Total	100.0	100.0	100.0

(Continued)

TABLE 6. CONTINUED

	Disability Insurance	Supplemental Security Income	Neither
Female, Not Married			
Living with family			
Working now	3.7	6.2	36.5
Not working, but able to	9.2	8.6	19.5
Not working and unable to	<u>87.1</u>	<u>85.2</u>	<u>44.0</u>
Total	100.0	100.0	100.0
Not living with family			
Working now	9.4	10.1	42.0
Not working, but able to	6.6	11.5	20.0
Not working and unable to	<u>84.0</u>	<u>78.3</u>	<u>38.0</u>
Total	100.0	100.0	100.0

SOURCE: Congressional Budget Office using data from the 1992 Survey of Income and Program Participation.

NOTE: The data underlying the percentages shown above for Disability Insurance (DI) and Supplemental Security Income (SSI) also include adults with disabilities who receive benefits under both programs. Almost 17 percent of DI recipients receive SSI, and 27 percent of SSI recipients also receive DI.

Health Insurance as an Incentive for Not Working

Some policy analysts have argued that receiving health insurance is a major incentive for stopping work in order to receive disability benefits. Successful SSI applicants receive Medicaid benefits immediately, although DI recipients do not receive Medicare benefits for two years. People with disabilities on average have significantly higher medical costs and a more difficult time obtaining coverage, so health insurance might be an attraction strong enough to make them stop working. Or at least the possibility of being uninsured might prevent them from returning to work once they feel they have recuperated enough to reenter the labor force, if they are unlikely to find a job that provides health insurance.

Many new recipients of federal disability benefits did not have health insurance just before entering their program (see Table 7). Over 25 percent of new DI recipients in 1992 were uninsured before receiving benefits, as were almost 34 percent of new SSI recipients. Married DI and SSI recipients were more likely to be insured just before they started receiving benefits.

Applicants who are denied benefits also have high rates of being uninsured. About 27 percent of people denied benefits to DI have no insurance (see Table 3). The percentage of denied applicants without insurance is actually slightly lower for those who do not work than those who do, because they are much more likely to receive Medicaid benefits. People terminated from the DI program are less likely to be uninsured—about 19 percent—than applicants who were denied benefits.²⁶

Little work has been done to assess the impact of potential health insurance benefits on the work behavior of disabled workers. Studies examining a similar situation that exists with recipients of Aid to Families with Dependent Children have had mixed results, though most studies suggest a significant link between the desire for health insurance and welfare participation.²⁷

26. The estimates of insurance rates for people terminated from the DI program should be viewed with caution since they are based on relatively few observations compared with the other estimates. Furthermore, the data are from the 1980s.

27. R. Blank, "The Effect of Medical Need and Medicaid on AFDC Participation," *Journal of Human Resources*, vol. 24, no. 1 (1989), pp. 54-87; R. Moffitt and B. Wolfe, "The Effect of the Medicaid Program on Welfare Participation and Labor Supply," *Review of Economics and Statistics*, vol. 74 (November 1992), pp. 615-626; D.T. Ellwood and E.K. Adams, "Medicaid Mysteries: Transitional Benefits, Medicaid Coverage, and Welfare Exits," *Health Care Financing Review*, Supplement (1990), pp. 119-131; S.L. Decker, "The Effect of Medicaid on Participation in the AFDC Program: Evidence from the Initial Introduction of Medicaid" (working paper, Harvard University, 1993).

TABLE 7. SOURCE OF HEALTH INSURANCE FOR NEW RECIPIENTS
DURING THE MONTH BEFORE BECOMING A RECIPIENT
OF DISABILITY BENEFITS, 1992 (In percent)

	All	Married	Not Married	
			Living with Family	Not Living with Family
Disability Insurance				
Private insurance	41.9	47.4	30.9	43.0
Government insurance	32.3	31.8	30.6	35.4
Uninsured	<u>25.8</u>	<u>20.8</u>	<u>38.5</u>	<u>21.6</u>
Total	100.0	100.0	100.0	100.0
Supplemental Security Income				
Private insurance	26.2	35.5	18.7	13.7
Government insurance	40.1	33.2	52.1	35.4
Uninsured	<u>33.7</u>	<u>31.3</u>	<u>29.3</u>	<u>50.9</u>
Total	100.0	100.0	100.0	100.0

SOURCE: Congressional Budget Office using data from the 1992 Survey of Income and Program participation.

TIME-LIMITING FEDERAL DISABILITY BENEFITS

Some policymakers have suggested putting time limits on federal disability benefits. Under such a proposal, new recipients not classified as "medical improvement not expected"—about one-half of all recipients—would have their benefits expire after three years. At that time, those recipients could reapply for benefits. The presumption, however, would be that those recipients were no longer disabled unless they could prove that their condition still limited their ability to work.

Under current law, continuing disability reviews are supposed to weed out recipients who no longer qualify for benefits, but most recipients have never undergone a CDR because resources for such reviews are limited. Without a termination arising from a CDR, Disability Insurance benefits continue until age 65, when recipients are automatically converted to Social Security retirement benefits. Disability benefits under the Supplemental Security Income program continue until a recipient dies or becomes financially ineligible.

The Social Security Administration's ability to conduct CDRs in the future could be significantly enhanced. The Contract with America Advancement Act of 1996 authorized appropriations of more than \$4 billion to the SSA for conducting CDRs during the 1996-2002 period. The authorizing legislation allows the budget caps that limit discretionary spending to be automatically increased if funding for CDRs is increased. Therefore, higher spending on CDRs would not necessitate cuts in other programs to keep discretionary spending within the caps. (At present, discretionary caps are only in effect through 1998, but they could be extended.) Also, since CDRs have typically reduced payments by more than they cost to conduct, increased funding would not be expected to raise the deficit in the long run.²⁸ Thus, that legislation removes a barrier to increased funding for CDRs. In fact, additional funding was appropriated for fiscal years 1996 and 1997 at the authorized level. The SSA projects that if CDRs were funded at the levels authorized in the act, the current backlog of CDRs in the DI program would be reduced from its present level of about 1.4 million to about 300,000 in 1999, after which it would be eliminated.

Although the SSA is empowered to conduct CDRs for SSI recipients, it is required to review only a small portion of its total caseload of more than 5 million

28. The savings from CDRs cannot be used to offset spending when it comes to staying within the discretionary caps, because the savings are from reduced payments, and payments are direct spending, not discretionary. Furthermore, the cost is immediate whereas the savings are stretched out over a number of years.

people.²⁹ Given the backlog in CDRs in the DI program, the SSA has done relatively few with the SSI caseload. Increased funding authorized by the act would allow the SSA to conduct more CDRs on recipients of SSI disability benefits but would not be sufficient to handle the entire backlog.

A key difference between CDRs and placing a time limit on benefits is the presumption about the expectation of receiving benefits. The present system, with CDRs, allows people to continue to receive benefits unless the SSA shows that their medical condition has improved and they are now capable of substantial gainful activity. In contrast, a system in which benefits will automatically cease after three years requires recipients to prove they are still entitled to benefits.

Illustrative Budgetary Effects of Time-Limiting Disability Benefits

Given that legislation passed by the 104th Congress established time limits for certain recipients of family assistance and food stamps, policymakers might also consider placing similar types of restrictions on federal disability programs. Time limits for certain people receiving food stamps were established for adults between the ages of 18 and 50. Therefore, one illustrative policy option would be to place time limits on people of the same age receiving disability benefits.

The Congressional Budget Office (CBO) estimates that a policy of time-limiting disability benefits for new recipients between the ages of 18 and 50 starting in 1998 would save about \$1.6 billion during the 2001-2006 period (see Table 8). The policy option this estimate is based on would require certain recipients to reapply for benefits after three years. The option would apply to all recipients ages 18 to 50 who were first awarded benefits after December 31, 1997, and were not classified as "medical improvement not expected." If they did not reapply, or if their applications were not approved, benefits would cease. Slightly over half of the savings would come from reduced cash benefits, predominantly in the DI program. Just under half of the savings would come from reduced payments in the Medicare and Medicaid programs. As mentioned earlier, some people receive Medicare or Medicaid benefits solely because of their eligibility for federal disability benefits.

Setting the cutoff at age 50 addresses a chief concern of policymakers—the fact that some younger beneficiaries spend most of their working-age years on the rolls. Time-limiting benefits for recipients nearer retirement age has much less potential for increasing the long-term work behavior of recipients. Moreover,

29. The SSA is required to conduct 100,000 CDRs a year from 1996 to 1998 and to review one-third of all recipients turning 18. Welfare reform measures passed in the 104th Congress added further requirements for reviewing children.

TABLE 8. ILLUSTRATIVE BUDGETARY AND CASELOAD EFFECTS OF AN OPTION THAT PLACES A TIME LIMIT ON BENEFITS FOR ADULTS AGES 18 TO 50

	2001	2002	2003	2004	2005	2006	Total 2001-2006
Budgetary Effects (By fiscal year in billions of dollars)							
Disability Insurance	a	a	-0.1	-0.1	-0.2	-0.2	-0.6
Supplemental Security Income	a	a	a	a	-0.1	-0.1	-0.2
Medicare	a	a	-0.1	-0.1	-0.1	-0.2	-0.5
Medicaid	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>-0.1</u>	<u>-0.1</u>	<u>-0.2</u>
Total	a	-0.1	-0.2	-0.3	-0.4	-0.6	-1.6
Caseload Effects (By fiscal year average, in thousands of people)							
Disability Insurance	-1	-4	-7	-10	-14	-18	-54
Supplemental Security Income	-1	-3	-6	-8	-10	-13	-41

SOURCE: Congressional Budget Office.

NOTE: The option would apply to all recipients of Disability Insurance and Supplemental Security Income ages 18 to 50 who were first awarded benefits after December 31, 1997, and were not classified as "medical improvement not expected." Those recipients would have to reapply for benefits every three years.

a. Less than \$50 million.

because people over 50 receive benefits for fewer years than young recipients and are less likely to have a condition for which medical improvements are expected, raising the cutoff to, say, 55 would not greatly add to the potential savings.

CBO made several key assumptions in estimating the savings. The first assumption was that the SSA would conduct an aggressive schedule of CDRs in accordance with the maximum cap adjustments contained in the Contract with America Advancement Act; that is, the estimate assumes that beneficiaries not classified as "medical improvement not expected" would undergo a CDR every three years. The \$1.6 billion in savings was measured against the expected policy of administering CDRs, not against past practice. Otherwise, the savings would have been higher.

CBO also assumed that 7 percent of people who reapplied would be denied. That rate is 1 percentage point higher than the assumption used for CDRs (based on termination rates from past CDRs), because the SSA must document "medical improvement" for a CDR termination. Meeting the "medical improvement" standard would not be necessary with a reapplication under a policy of time-limiting benefits.

Finally, CBO assumed the option would not affect initial applications but that the rate of reapplication would decline very slightly. If the policy of time-limiting benefits reduced the number of applications, the savings would be higher. Any such reduction, however, would probably not be observed for at least several years, until potential applicants could assess the effects of the time limit on the first cohorts subject to the new rules.

Advantages of Time-Limiting Benefits

Establishing a time limit for benefits would encourage work by creating a financial incentive (since the value of expected benefits would decrease). It might also alter recipients' attitudes about their ability to work by sending the signal that their condition is not perceived as permanently preventing them from working. Staying up to date with CDRs would serve the same purpose as time-limiting benefits, although a time limit would probably be more effective in lowering program costs. Time-limiting the DI program, however, would have less of an impact if CDRs were conducted on schedule. Still, some differences exist between using a time limit and staying up to date with CDRs.

A Larger Financial Incentive to Work. If having to reapply for benefits and having to undergo a CDR both lower recipients' chances of continuing to receive benefits, time-limiting benefits would be expected to have a similar impact on work behavior as fully funding CDRs. A CDR results in a termination only if the SSA can

demonstrate that a recipient's medical condition has improved. Since reapplications, unlike CDRs, are not subject to the medical improvement rule, time-limiting benefits might have a slightly larger impact on program costs. Even without a medical improvement, a reapplication could be denied if the SSA felt the applicant was capable of sustained work.

Placing a time limit on benefits lowers the expected value of the income stream that those benefits can generate. As shown earlier, lowering the expected value of benefits increases participation in the labor force.

The expected value of benefits that people age 35 would have received by the time they were 50 (when they would no longer be subject to the time limits under this option) would be about 13 percent less under a time-limited system compared with the present system without CDRs. A policy of aggressively conducting all CDRs would reduce the expected value of the benefit by 11 percent.

With a three-year time limit, people age 35 would be guaranteed only three years of disability benefits and would then have to reapply. If they never faced a CDR or reapplication requirement, they would expect an uninterrupted stream of disability benefits over the next 15 years, at which point the time-limited aspect of benefits would no longer apply. As stated earlier, the estimate assumes that about 7 percent of reapplications would be denied, so 7 percent of people still receiving benefits after each three-year period would have their benefits terminated.³⁰ That chance of losing benefits reduces the expected value of benefits over the next 15 years for a 35-year-old who survives to age 50 by as much as 13 percent. A policy of conducting all CDRs would result in a reduction in expected benefits of 11 percent over the same period.³¹

30. Actually, although the average termination rate is expected to be 7 percent, it might be higher than that at the first reapplication and then decrease with each successive three-year period because the people with the most likely chance of recovering will leave the program first. Nevertheless, for simplicity's sake, this example uses a constant 7 percent termination rate as does the savings estimate.

31. During the first three years, recipients would receive 20 percent of the maximum nominal benefits they could receive over the 15-year period until they are 50 years of age. At that point, they have a 7 percent chance of losing their benefits. If they do not lose them, they have a 7 percent chance of losing them three years later, and so on. The expected value of their benefits over the 15-year period is $\{.20+.93(.20+.93(.20+.93(.20+.93(.20))))\}=87$ percent of the benefits that could be received with no time limits and no chance of receiving a CDR. That amounts to a 13 percent reduction in expected benefits. Using .94, instead of .93, yields the 11 percent reduction associated with a 6 percent termination rate from CDRs.

These calculations are extremely rough. They do not take into account what happens after age 50, nor do they account for inflation, changing benefit levels, or the chance that someone removed from the rolls reapplies successfully at a later date. Furthermore, they do not consider that reapplying successfully after one three-year period may be correlated with the chance after subsequent three-year periods.

These estimates serve as an upper bound on program savings since some recipients die before age 50 and many could return to the rolls even after being dropped from the program. In fact, 63 percent of people terminated from DI through the CDR process between 1981 and 1984 were back on DI in 1987. Close to 30 percent of those allowed benefits in 1984 had died by 1987, although many of those people were over 50.

The research cited earlier suggests that this level of reduction in disability benefits generally would increase labor force participation by at most 1 percent to 2 percent. The difference between the effect of this illustrative policy of time-limiting benefits on labor force participation and that of a policy of conducting all CDRs, however, would be small.

In addition, with either policy, some people would be terminated from the program. About 3 percent of new recipients in a given year would be removed from SSI three years later. Based on the results reported earlier, over 20 percent of them would return to work.

In the long run, time-limiting benefits could lower participation in disability programs by at most 3 percent and increase labor force participation of older adults by between 1 percent and 2 percent. The effects of conducting all required CDRs would be marginally smaller. Neither policy would completely counter the high rates of growth the program has experienced in recent years.³²

Improved Self-Perception of Recipients' Ability to Work. As noted earlier, some people believe that the application process is demoralizing and that a very high likelihood of a permanent period of reciprocity sends a strong message to applicants. Applicants' self-esteem and their perceived ability to work may diminish. One effect of emphasizing that benefits are not automatically considered permanent could be to create the expectation that people with disabilities should take steps to reenter the workforce—indeed, that a reasonable chance of working again exists. Receiving such a message might change people's mind not only about returning to work but about their own self-worth. Advocates of time-limiting benefits believe that this policy sends a stronger signal than having all recipients undergo regularly scheduled CDRs.

32. The reasons for the growth in DI and SSI include changes in criteria for mental disabilities, changes in the eligibility rules for children, growth in the number of women insured under DI, the aging of the population, longer lengths of reciprocity, and other factors. See Koitz, Kollman, and Neiser, *Status of the Disability Programs of the Social Security Administration, 1994*; and General Accounting Office, *Disability Rolls Keep Growing, While Explanations Remain Elusive*, Report to the Senate Committee on Finance and the House Committee on Ways and Means, GAO/HEHS-94-34 (February 1994).

Disadvantages of Time-Limiting Benefits

The disadvantages of moving to time limits hinge on the added administrative work it would impose and on potential hardships for recipients. The total number of reviews processed would rise significantly in a system that is already overburdened. One result could be an increase in applicants who are incorrectly denied benefits. Conversely, limited resources in the disability determination system might increase the approval rate of borderline applications. Moreover, even when benefits were awarded, numerous appeals would probably be made about whether the benefits were permanent or time-limited, straining resources further.

Administrative Burden. Disability determination services are already swamped, and time-limiting benefits would add to that problem considerably. Administrators of those services report serious staff shortages and insufficient funding in key operational areas. In fact, many disability determination services claim that they are unable to perform other tasks, such as training and supervisory activities, because staff must be reassigned in order to keep up with the quantity of applications.

This administrative burden may already be affecting the accuracy of workers in state disability determination services who determine which applicants should receive benefits.³³ A majority of administrators of those services expressed concerns about that, although a three-year slide in the accuracy of denials was reversed in 1992. A sharp increase in the number of claims handled, however, could cause additional problems. Limited resources might prompt the services to approve borderline cases. Another factor that could add to this tendency would be an increased number of decisions being appealed. More would be at stake in determining the severity of the applicant's disability since benefits to an applicant designated "medical improvement not expected" would not be subject to time limits.

Of course, sifting through a large volume of reapplications from time-limited beneficiaries would not be fundamentally costlier for the SSA than conducting CDRs on the same beneficiaries. And the Congress—by enacting a cap adjustment for CDRs—has expressed a willingness to set aside a guaranteed source of funding in the future. That decision, though, will have to be ratified every year as part of the debate over appropriations. If the SSA's resources do not keep up with the demands,

33. Statement of Jane L. Ross, Director, Income Security Issues, Division of Health, Education, and Human Services, General Accounting Office, before the Subcommittee on Social Security, House Committee on Ways and Means, published as General Accounting Office, *Social Security Disability: Management Action and Program Redesign Needed to Address Long-Standing Problems*, GAO/T-HEHS-95-233 (August 3, 1995); and General Accounting Office, *Social Security: Increasing Number of Disability Claims and Deteriorating Service*, Report to the Chairman, Senate Committee on Finance, GAO/HRD-94-11 (November 1993). The SSA is redesigning its system in order to confront those issues.

some possible consequences include even longer processing times, pressure to simply rubber-stamp applications or reapplications, and higher rates of error. The rate of appeals, however, would probably be lower than under a time-limited system because applicants would have less reason to contest not being labeled "medical improvement not expected."

Inaccurate Denials Have High Costs for People Losing Coverage. Over 7 percent of people denied DI benefits are deemed to have been mistakenly denied.³⁴ If time limits were introduced in both federal disability programs, the number of people mistakenly denied benefits would probably increase since more recipients would have to repeat the application process. If the extra administrative workload caused problems, the percentage of applicants who were wrongly denied could also increase, although as stated above, that same percentage could be wrongly awarded instead.

The number of inaccurate denials would be relatively small, but the people who were wrongly denied would generally end up in poverty. In 1993, over 1,200 of the nearly 50,000 undergoing a CDR were dropped from the program and did not return to work. Applying that rate to the projected number of applications under a scenario with a time limit on benefits yields the conclusion that requiring all recipients currently classified as not permanently disabled to reapply would probably have led to almost 8,000 people being dropped from the DI program and not subsequently returning to work in 1996. The number of inaccurate denials would be some percentage of those people. The number of inaccurate denials in the SSI program would probably be of a similar magnitude.

People who were mistakenly denied, however, would be put in a very vulnerable position. Disabled and incapable of working, they would have a very low standard of living. As shown earlier, about 60 percent of them would be living in poverty, and about one-fourth would have no health insurance.

Potential for Gaps in Coverage. Even people who would be readmitted to a disability program might face gaps in coverage if provisions were not made to continue benefits during the reapplication process. In 1995, the average length of wait for people who were accepted to federal disability programs by the disability determination service without having to appeal was about 100 days from filing. For the more than 17 percent who were originally denied benefits but then subsequently obtained them through appeal, that wait was extended by an additional 265 days on average. Whether reapplications would take a similar amount of time is unclear.

34. See General Accounting Office, *Social Security*.

As discussed above, many recipients are poor, and many have no access to health insurance. A gap in coverage of even a few months could impose a significant hardship, especially for people who rely on medication or other forms of health care. Even if awarded, retroactive benefits might not fully alleviate the problems those beneficiaries could face.

Continuing benefits during the application procedure could, however, create overpayments to some recipients if they were subsequently denied benefits. With time-limited benefits, any payments received after the time limit, but before the reapplication procedure was completed, might have to be returned. The SSA does not have a good track record of recovering overpayments when there is no benefit check from which to withhold money.

Increased Continuing Disability Reviews as Another Option

Expanding the use of CDRs, as the Congress has recently encouraged, is an alternative to time-limiting benefits. The SSA is planning more CDRs, but not enough to deal with the entire caseload. Expanding CDRs further, or at least in some way ensuring a continued aggressive approach to conducting CDRs, has some advantages over time-limiting benefits.

One advantage to increasing the number of CDRs over time-limiting benefits is that it eliminates the problem of potential gaps in coverage. Furthermore, if CDRs were targeted, the number of full-fledged medical reviews could be smaller than the number of new applications that would result from establishing time limits. Recent attempts at targeting CDRs have been successful and may expand now that more funding might be available.³⁵

This approach has some drawbacks, however. The message about the expectation of recovery is weaker. Furthermore, during a financial or administrative crunch, it might be easy simply to reduce the number of CDRs. In the past, CDRs have been required, but a substantial backlog was able to develop because of insufficient funding. No guarantee exists that adequate funding will continue. Under a strategy of time-limiting benefits, recipients' benefits would definitely end unless they reapplied. SSA would be under much more pressure to process the new applications; if it did not, many eligible people would not receive benefits.

35. Statement of Jane L. Ross, Associate Director, Division of Health, Education, and Human Services, General Accounting Office, before the Subcommittee on Social Security, House Committee on Ways and Means, published as General Accounting Office, *Continuing Disability Review Process Improved, But More Targeted Reviews Needed*, GAO/T-HEHS-94-121 (March 10, 1994).

In the end, either strategy—time-limiting benefits or increasing CDRs in both DI and SSI—would be expected to decrease the caseloads and expenditures in federal disability programs. Both options would also encourage work. Nevertheless, neither strategy would reverse the substantial growth both programs have experienced in recent years.

