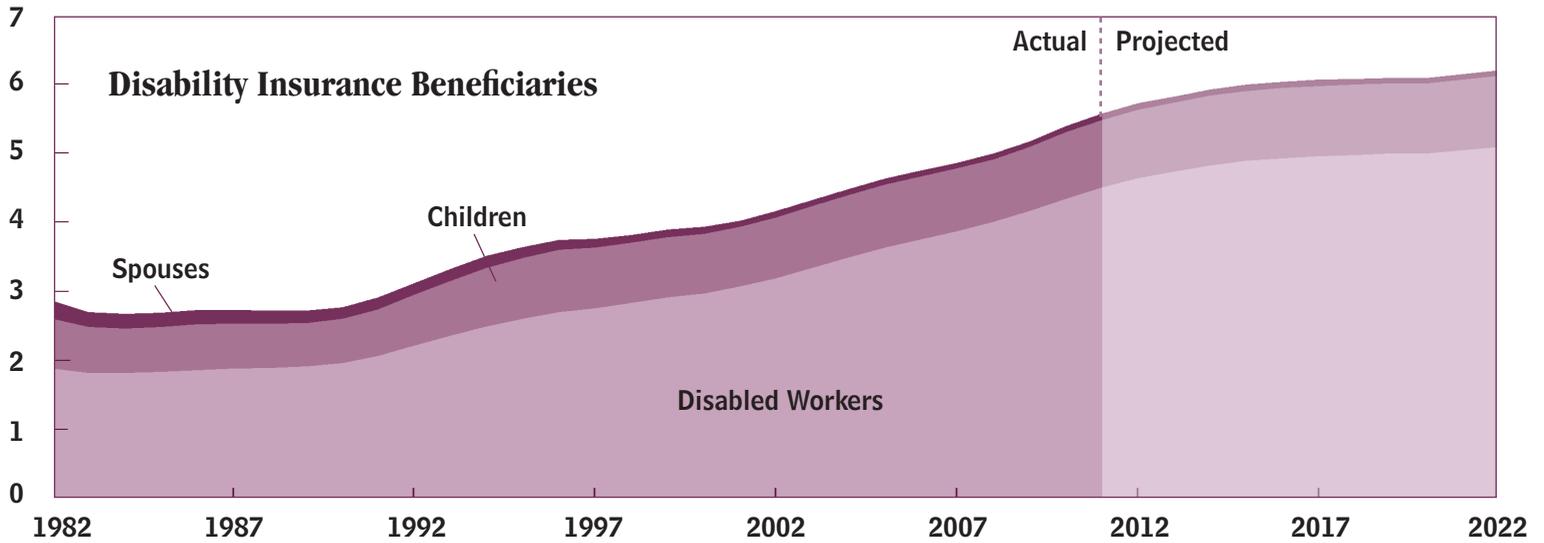


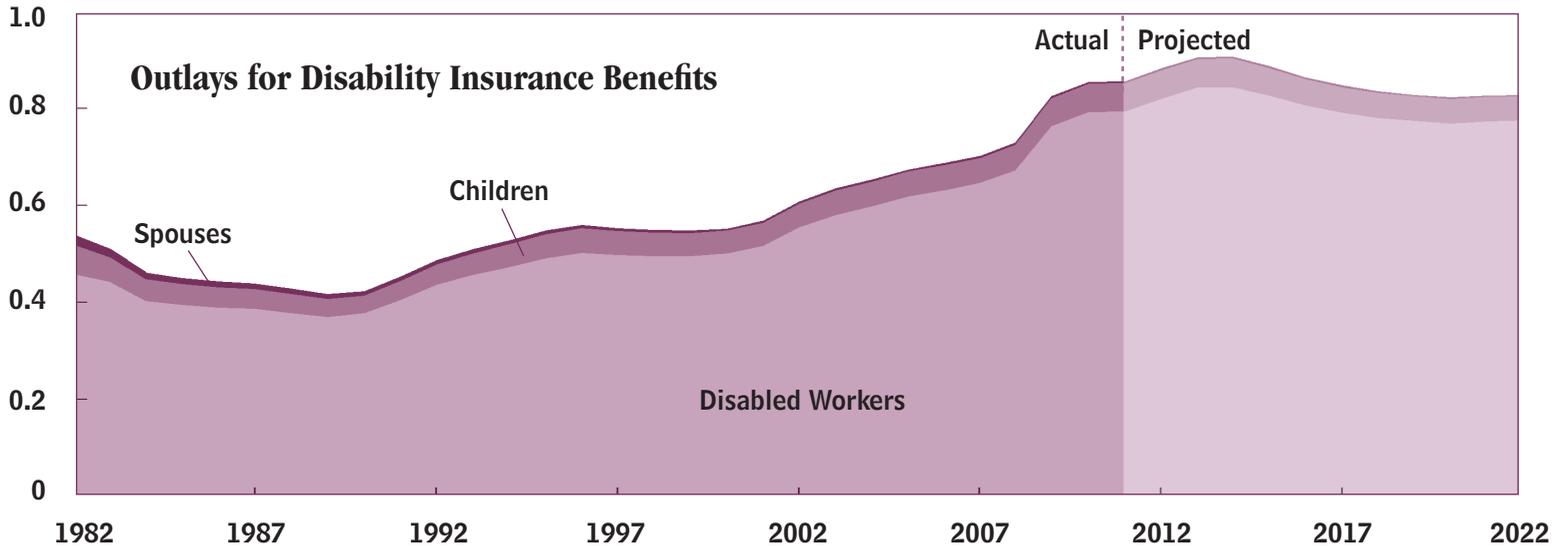
CBO

Policy Options for the Social Security Disability Insurance Program

Percentage of People Ages 20 to 64



Percentage of GDP



JULY 2012

Note

Unless otherwise indicated, the years referred to in this report are federal fiscal years (which run from October 1 to September 30).



Contents

Summary	iii
What Is Disability Insurance?	1
How Have Participation in and Costs for the Disability Insurance Program Grown?	2
Why Has the Disability Insurance Program Grown So Rapidly?	3
Changes in Demographics and Growth of the Labor Force	3
Changes in Federal Policy	4
Changes in Opportunities for Employment and Compensation	5
Approaches to Addressing the Fiscal Imbalance in the Disability Insurance Program	6
Box 1. Other Federal Programs That May Be Affected by Changes to the Disability Insurance Program	8
Increase the Program's Revenues	10
Reduce the Program's Spending	11
Options to Provide Greater Support to Disability Insurance Beneficiaries	16
Increase the COLA by 1 Percentage Point	16
Eliminate the Five-Month Waiting Period	16
Possible Approaches to Making Fundamental Changes in the Disability Insurance Program	16
The Capacity for Work of People with Disabilities	17
Encouraging Work Among DI Beneficiaries and Applicants	17
Strategies for Reducing the Number of People Who Leave the Workforce and Become DI Beneficiaries	19
About This Document	21
Table	
1. Summary of Possible Approaches to Changing the Disability Insurance Program	7
Figures	
1. Fraction of the Working-Age Population (People Ages 20 to 64) Receiving Disability Insurance Benefits	2
2. Primary Insurance Amount Formula for Computing Disability Insurance Benefits in 2011	12



Summary

The Social Security Disability Insurance (DI) program pays cash benefits to nonelderly adults (those younger than age 66) who are judged to be unable to perform “substantial” work because of a disability but who have worked in the past; the program also pays benefits to some of those adults’ dependents. In 2011, the DI program provided benefits to 8.3 million disabled workers, nearly sixfold the 1.4 million disabled workers who received benefits in 1970. Including the dependent spouses and children of those workers further increases the number of people receiving support in 2011 to 10.3 million. The growth in the program can be attributed to changes in multiple factors, including demographics, the labor force, federal policy, opportunities for work, and compensation (earnings and benefits) during employment.

Over the past 40 years, outlays for benefits from the DI program (adjusted for inflation) have grown by more than nine times. During that period, the average benefit received by disabled workers rose from about \$560 per month to about \$1,050 per month in 2010 dollars. (Other programs also support workers with disabilities; for example, DI beneficiaries receive Medicare benefits that cost the federal government on average more than 80 percent as much as their DI benefits.) By comparison with outlays, revenues dedicated to the program have increased nearly fivefold since 1970. The divergence between the program’s spending and revenues has prompted concerns about its financial sustainability. In 2011, spending on benefits in the DI program was \$128 billion, or 0.86 percent of gross domestic product (GDP); by contrast, the program’s revenues totaled about \$94 billion, or 0.63 percent of GDP. In 2022, the program’s spending and revenues will be roughly the same shares of economic output as in 2011, according to the Congressional Budget Office’s (CBO’s) estimates. By 2037, revenues as a percentage of GDP will be little

changed, but spending as a share of output will have fallen slightly, as the proportion of the working-age population that is age 50 or older (and thus more likely to receive DI benefits) declines.

In this study, CBO in conjunction with the staff of the Joint Committee on Taxation (JCT) has estimated the budgetary effects of a variety of potential modifications to the DI program. In CBO’s and JCT’s estimation, two policy options that would alter the taxes that support the program would result in higher revenues of \$13 billion or \$28 billion in 2022. Seven policy options that would modify benefits could lead to declines in the rate of growth of the number of participants in the program and to cuts in the program’s spending relative to CBO’s currently published estimates; cuts in spending could range between about \$1 billion and about \$22 billion in 2022. In addition, CBO estimated the longer-run effects of each option relative to the agency’s current long-term estimates: By 2037, the two revenue options would increase DI tax receipts in that year by 8 percent or 22 percent, and the seven spending options would reduce DI outlays by between 2 percent and 14 percent.

Modifications to the DI program would necessarily affect several other federal programs, including, most significantly, the Social Security Old-Age and Survivors Insurance (OASI) program, Medicare, the Supplemental Security Income (SSI) program, and Medicaid. However, analysis of those interactions was outside the scope of this report.

Restoring the DI program to a sound budgetary position would require combinations of the policies examined here or other changes to the program. From the perspective of the overall federal budget, the increases in taxes and reductions in spending considered in this analysis would improve the fiscal outlook to varying degrees but

would leave very large imbalances between total federal revenues and spending if current policies were continued in all other respects.¹

Alternatively, lawmakers could choose to modify the DI program in ways that would provide greater support to certain DI beneficiaries and increase spending for the program. CBO examined two policy options of that sort. Those options would increase DI outlays by \$8 billion or \$16 billion in 2022 and by 5 percent or 6 percent by 2037.

Policymakers could also alter the program in more fundamental ways. CBO reviewed proposals for several such changes, and this report summarizes the main themes

among them. Modifications might include promoting disabled beneficiaries' return to work—for example, by moving to a partial disability system that related benefits to the degree of disability or, in the case of newly disabled workers, by focusing on rehabilitation and reemployment rather than the receipt of benefits. Many of those alternatives have been implemented in various European nations, in part to reduce spending on disability programs, and that experience may provide some insight into the options' potential effects. But the changes in policy that those countries have instituted generally have been in place for such a short time that their fiscal impact is uncertain. Overall, CBO concludes, such fundamental changes might help move the United States' DI program toward budgetary balance in the long run but are unlikely to provide sufficient immediate cost savings to resolve the program's near-term financial pressures.

1. For a discussion, see Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012).



Policy Options for the Social Security Disability Insurance Program

What Is Disability Insurance?

The Social Security Disability Insurance program is one component of the framework of support that is the federal Social Security system, which comprises the Old-Age, Survivors, and Disability Insurance programs. The DI program provides income to nonelderly adults who have worked in the past but whom the Social Security Administration (SSA) now deems unable to work because of a medical condition that is expected to last more than one year or to result in death. Only workers who are younger than the full retirement age—established for the Old-Age component of Social Security—can be eligible for DI benefits.¹ Disabled beneficiaries receive monthly payments based on their past earnings for as long as they remain in the program.² (Some family members of disabled beneficiaries, including certain spouses and children, are also eligible for benefits.) If DI beneficiaries remain disabled and live to their full retirement age, they transfer to the Social Security retirement program at that age, but their benefits do not change.³

In May 2012, the DI program provided benefits to 10.8 million people. More than 80 percent of them,

or 8.7 million people, were disabled workers; about 18 percent, or 1.9 million, were children of those workers; and fewer than 2 percent, or 166,000, were spouses of those workers.

The DI program's rules generally restrict beneficiaries from working and earning substantial amounts while they are receiving benefits. However, when beneficiaries first start to work, they can earn an unlimited amount for 12 months without losing their benefits. Thereafter, they can earn no more than some specified amount per year (\$12,120 in 2012) before their benefits are eliminated. (A beneficiary may enter a "trial work period" during which he or she may work for nine months and remain in the program. A three-month grace period follows the trial work period.)⁴ The average monthly benefit for a disabled worker in May 2012 was \$1,111; thus, at that benefit level, the average DI beneficiary this year may have an annual income of no more than \$25,452 from those two sources. (For purposes of comparison, average income per person for the nation as a whole, according to the Census Bureau, was about \$26,500 in 2010.) In 2006, the most recent year for which data are available, 50 percent of DI beneficiaries had household income that was below the federal poverty threshold—a proportion

1. The full retirement age is the age at which a person becomes eligible for unreduced Social Security retirement benefits. For details on DI eligibility, see Social Security Administration, *Disability Evaluation Under Social Security* (Blue Book), SSA Pub. 64-039 (September 2008), www.ssa.gov/disability/professionals/bluebook/listing-impairments.htm.

2. In this report, the term "disabled beneficiaries" refers to people with disabilities who are receiving benefits from the DI program as a result of their own disability and whose DI benefits are calculated on the basis of their own work history. (Such beneficiaries are also referred to as disabled worker beneficiaries, disabled workers, or disabled insured beneficiaries.)

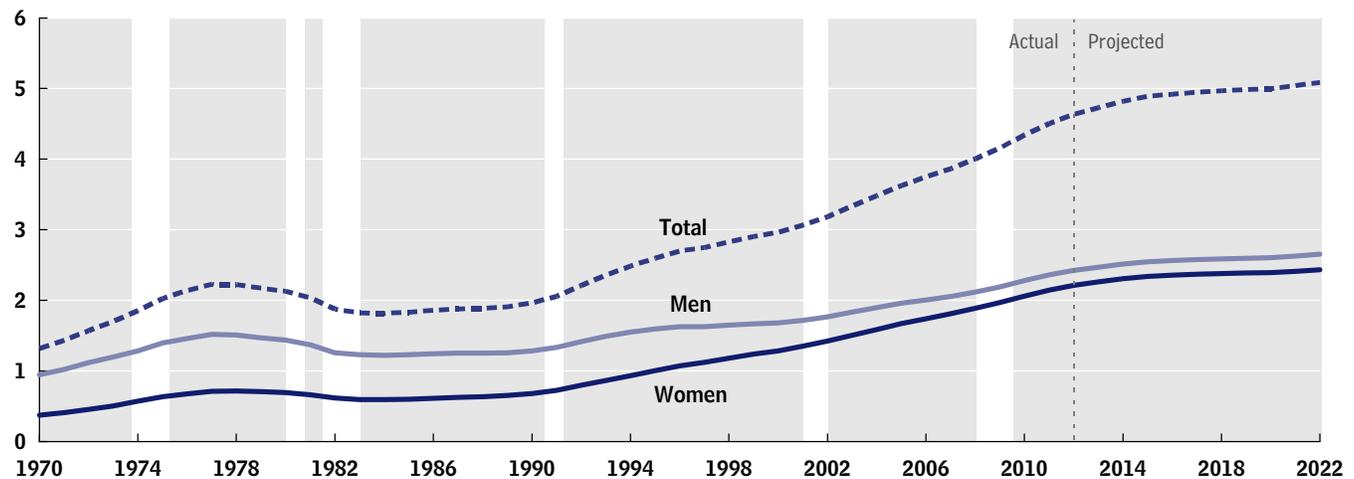
3. For more-detailed descriptions of the DI program, see Congressional Budget Office, *Social Security Disability Insurance: Participation Trends and Their Fiscal Implications* (July 2010); and Social Security Administration, *Disability Benefits*, SSA Pub. 05-10029 (July 2011), www.ssa.gov/pubs/10029.html.

4. Blind beneficiaries face higher thresholds; in 2012, they could earn up to \$20,280 per year. For more information, see Social Security Administration, "Trial Work Period" (October 2011), www.ssa.gov/oact/COLA/twp.html.

Figure 1.

Fraction of the Working-Age Population (People Ages 20 to 64) Receiving Disability Insurance Benefits

(Percent)



Sources: Congressional Budget Office; Social Security Administration.

Note: White bars indicate recessions.

about five times higher than the national poverty rate of 10 percent at that time.⁵

How Have Participation in and Costs for the Disability Insurance Program Grown?

Over the past 40 years, the number of disabled workers who receive benefits from the DI program has increased nearly sixfold, rising from 1.4 million in 1970 to 8.3 million in 2011. (Dependents of disabled beneficiaries are not included in that calculation.) In calendar year 1970, about 1.3 percent of working-age adults—individuals ages 20 to 64—were receiving DI worker benefits; in

2011, that fraction was 4.5 percent. Much of the recent growth in the share of the population that comprises disabled workers stems from increases in the number of women receiving disabled worker benefits. Between 1970 and 1995, the percentage of women who received such benefits grew by about 0.6 percentage points—about the same rate of growth as for men. Between 1995 and 2011, however, women receiving disabled worker benefits increased from 1.0 percent to 2.1 percent of all working-age adults; the corresponding change for men was from 1.6 percent to 2.4 percent.

Between calendar years 2012 and 2022, growth in the share of people ages 20 to 64 receiving DI benefits will slow considerably relative to growth during the past 40 years, the Congressional Budget Office projects. Nevertheless, in CBO's estimation, the share of people of those ages receiving benefits in 2022 will rise to more than 5.0 percent, with about equal relative increases in the proportion who are men and the proportion who are women (see Figure 1).

The rapid growth in the DI program's rolls has put increasing pressure on its finances. Between fiscal years 1970 and 2011, DI expenditures on benefits (adjusted for inflation) rose by more than nine times. As a result, a growing share of spending for the Social Security system is being directed to participants in the DI program. In

5. Because the poverty rate among DI beneficiaries is measured at the household level and the national poverty rate is measured at the family level, the two are not strictly comparable. The household poverty rate among DI beneficiaries comes from Table 9 in Gina Livermore and others, *Work Activity and Use of Employment Supports Under the Original Ticket to Work Regulations—2006 National Beneficiary Survey: Methodology and Descriptive Statistics* (Mathematica Policy Research, Center for Studying Disability Policy, October 2009), www.mathematica-mpr.com/publications/PDFs/disability/TTW_2006_NBS.pdf. The national poverty rate is calculated for all families by the Census Bureau; see *Income, Poverty, and Health Insurance Coverage in the United States: 2006*, Current Population Reports, P60-233 (August 2007), www.census.gov/prod/2007pubs/p60-233.pdf.

1970, DI spending was about 10 percent of OASDI expenditures; by 2011, that share had grown to nearly 18 percent. CBO estimates that by 2022, as the number of beneficiaries in the Social Security retirement program swells, the DI program's share of OASDI spending will shrink to about 15 percent.

Total DI expenditures were \$128 billion in 2011 and, CBO projects, will be \$204 billion in 2022. Measured relative to the size of the economy, DI spending was about 0.27 percent of the nation's gross domestic product in 1970; by 2011, that share had grown to 0.86 percent. CBO expects that proportion to continue to increase, to about 0.91 percent in 2013 and 2014, before declining slightly, to 0.83 percent in 2022. In contrast, revenues measured as a share of economic output were 0.63 percent of GDP in 2011 and, CBO projects, will be 0.65 percent of GDP in 2022.⁶

Total government spending on DI beneficiaries is substantially higher. In particular, the cost of Medicare benefits received by people who are eligible for them because they receive DI benefits was about \$80 billion in 2011; CBO expects that it will be \$120 billion in 2022. Moreover, some DI beneficiaries also receive benefits from the Medicaid and Supplemental Security Income programs.

The DI program's rapid expansion and the projected gap between its spending and dedicated revenues in the future raise questions about the financial sustainability of the program. Since 2009, the program has been paying out more in annual benefits than it receives in taxes and in interest on the balances in its trust fund.⁷ CBO projects that the DI trust fund will be exhausted by 2016, nearly 20 years before the projected exhaustion of the trust fund for the Social Security retirement program.⁸

6. Lawmakers have reduced the workers' portion of the payroll tax by 2 percentage points for calendar years 2011 and 2012; the reduction in tax revenues is being made up by reimbursements from the Treasury's general fund to the two Social Security trust funds. For the purposes of the calculations in this report, Social Security payroll tax revenues are considered to include those reimbursements.

7. Federal trust funds, including those for Social Security, essentially constitute an accounting mechanism. In a given year, the sum of a fund's receipts along with the interest that is credited on previous balances, minus spending for benefits and administrative costs, equals a fund's surplus or deficit.

Why Has the Disability Insurance Program Grown So Rapidly?

Multiple factors help explain the DI program's rapid growth, and CBO has grouped them under three main categories:

- Changes in demographics and growth of the labor force,
- Changes in federal policy, and
- Changes in opportunities for employment and compensation.

Changes in Demographics and Growth of the Labor Force

Part of the growth in the DI program reflects the aging of the large baby-boom generation (people born between 1946 and 1964) and consequently the aging of the workforce, which has led to an increase in the share of workers who enter the DI program. Older workers are far more likely than younger workers to qualify for DI benefits. More older people suffer from debilitating conditions; moreover, the program's qualification standards for older workers are less strict than those for younger workers because older people are assumed to be less able to adapt to new types of work.

The aging of the baby-boom generation has shifted more people from the ranks of younger workers (ages 25 to 44), for whom the rate of enrollment in the DI program is lower, and into the ranks of older workers (ages 45 to 65), for whom the rate of enrollment is higher. Between calendar years 1996 and 2009—the approximate period during which the baby-boom generation entered their 50s—the share of disabled worker benefits awarded to older workers (age 45 and older) rose from 67 percent to 76 percent; mirroring that increase was the decline in the share of benefits awarded to younger workers (ages 25 to 44), which fell from 31 percent to 22 percent.⁹ Thus, the

8. Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985 (section 257(b)), CBO's baseline projections incorporate the assumption that DI benefits will be paid in full even after the trust fund is exhausted.

9. Over that period, awards to people younger than age 25 rose from 2.0 percent to 2.5 percent. See T.A. Zayatz, *Social Security Disability Insurance Program Worker Experience*, Social Security Administration Actuarial Study 122 (Social Security Administration, May 2011), www.ssa.gov/OACT/NOTES/s2010s.html.

baby boomers' aging would have boosted enrollment in the DI program even if no other factors had changed.¹⁰

Another reason for the DI program's growth is the increase in the labor force relative to the number of working-age people. That increase largely stems from a rise in the number of working women, who are eligible, like men, to receive benefits if they become disabled. The increased number of working women has boosted revenues for the DI program, through the payroll taxes collected on their earnings, but it has also led to more disabled beneficiaries and higher outlays for the program.

Changes in Federal Policy

In 1984, lawmakers enacted the Disability Benefits Reform Act, which expanded the ways in which people could qualify for the DI program. That legislation, in addition to reversing several of the cost-containment measures enacted as part of the 1980 Social Security Disability Amendments, shifted the criteria for DI eligibility from a list of specific impairments to a more general consideration of a person's medical condition and ability to work. The legislation allowed applicants to qualify for benefits on the basis of the combined effect of multiple medical conditions, each of which taken alone might not have met the criteria. It also allowed symptoms of mental illness and pain to be considered in assessing whether a person qualified for admission to the DI program, even in the absence of a clear-cut medical diagnosis.¹¹ The easing of the eligibility criteria increased the importance of subjective evaluations in determining whether applicants qualified for benefits.

10. See Mark G. Duggan and Scott A. Imberman, "Why Are the Disability Rolls Skyrocketing? The Contribution of Population Characteristics, Economic Conditions, and Program Generosity," in David M. Cutler and David A. Wise, eds., *Health at Older Ages: The Causes and Consequences of Declining Disability Among the Elderly* (University of Chicago Press, 2009), pp. 337–379, www.nber.org/chapters/c11119. Those authors estimate that the aging of the population accounts for about one-fifth of the growth in the share of the working-age population enrolled in the DI program.

11. See Zayatz, *Social Security Disability Insurance Program Worker Experience*; Frank S. Bloch, "Medical Proof, Social Policy, and Social Security's Medically Centered Definition of Disability," *Cornell Law Review*, vol. 92 (2006–2007), p. 189; and David H. Autor and Mark G. Duggan, "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding," *Journal of Economic Perspectives*, vol. 20, no. 3 (Summer 2006), pp. 71–96.

Those changes in policy led to a substantial expansion in the share of DI beneficiaries with mental or musculoskeletal disorders, many of whom enter the program at younger ages than do people with other types of disabilities and many of whose applications are largely judged by using subjective criteria. The share of beneficiaries with musculoskeletal disorders increased from about 17 percent in calendar year 1986 (two years after the passage of the law) to over 28 percent in 2010. The share of beneficiaries with mental disorders increased from about 22 percent in 1986 to about 33 percent in 2010. In addition to increasing the number of people who enter the DI program, those changes have helped boost the average length of time that disabled workers receive DI benefits because those disorders are comparatively more prevalent at younger ages and comparatively less likely than many other qualifying conditions to result in premature death.¹²

Another way in which federal policy has led to growth in the DI program is through the rise in the full retirement age for Social Security that has occurred during the past decade. That rise has had two main effects on the DI program: It has enlarged the potential pool of DI applicants by including more older workers who have not yet reached their full retirement age, and it has increased the length of time individuals spend receiving DI benefits because disabled worker beneficiaries now shift to the Social Security retirement program later than in previous years. (In addition, the rise in the full retirement age has boosted revenues for the DI program in the form of payroll taxes collected on the earnings of people who are now working longer before claiming retirement benefits.) Between 2002 and 2009, the age at which DI beneficiaries transferred to the retirement program rose from 65 to 66; it is scheduled to rise to age 67 by 2027.

12. Musculoskeletal disorders include, for example, certain disorders of the spine and major dysfunctions of the joints, which affect people's ability to ambulate or to perform fine and gross movements effectively. Mental disorders include, for example, certain types of affective, psychotic, and anxiety-related disorders. (Details are available at www.ssa.gov/disability/professionals/bluebook/AdultListings.htm.) Researchers have found that mortality rates vary substantially by diagnosis and that DI recipients with mental disorders and musculoskeletal conditions have lower mortality rates than the average DI recipient. See Kalman Rupp and Charles G. Scott, "Trends in the Characteristics of DI and SSI Disability Awardees and Duration of Program Participation," *Social Security Bulletin*, vol. 59, no. 1 (January 1996), pp. 3–21, www.ssa.gov/policy/docs/ssb/v59n1/index.html.

Changes in Opportunities for Employment and Compensation

Whether people apply for DI benefits is strongly affected by the design of the program, the opportunities people have for employment, and the difference between the DI benefits an individual would receive and the compensation (earnings and benefits, including health insurance) associated with working. When jobs are plentiful, some people who could qualify for the DI program may choose instead to work. Conversely, when jobs are scarce, such as in economic downturns, some people with disabilities may find that their employment opportunities are especially limited, and they will instead choose to apply for DI benefits. Indeed, in the aftermath of the recent severe recession, applications for DI benefits reached a historic high, exceeding 2.9 million in calendar year 2010.¹³

Short-term economic downturns can have long-term effects on the DI program's benefit rolls. Many people who have been out of work for long periods find it hard to reenter the labor force, especially at their previous wage level, and they may ultimately turn to the DI program for support. Once they have been awarded benefits, only a very small percentage of DI participants permanently leave the program to return to the workforce.¹⁴ CBO projects that as a result of the most recent recession and slow recovery, the number of disabled worker beneficiaries will continue to rise over the next few years (although growth will slow as the economy improves). That increase in participation stemming from the severe economic downturn will add to the long-term trend of rising enrollment.

The value of the benefits that a worker receives from the DI program relative to the earnings and benefits received through his or her job will also affect whether an eligible worker decides to apply for DI benefits. Workers who are displaced from jobs during economic downturns may

face large cuts in their wages upon reemployment, making DI benefits relatively more desirable. Moreover, because the formula for calculating benefits is progressive, it replaces a larger share of earnings for low-wage workers than for high-wage workers. That progressivity combined with the growing gap between the earnings of low-paid and highly paid workers has probably increased the number of low-wage beneficiaries since the late 1970s.¹⁵

Access to health insurance and the cost of obtaining it are additional factors that can affect an individual's decision to apply for DI benefits. Disabled beneficiaries receive coverage under Medicare, regardless of their age, generally after a 24-month waiting period. For workers without employment-based health insurance, the eventual eligibility for Medicare that comes with participation in the DI program may be quite valuable and may encourage them to apply. Similarly, the recent decline in employer-provided health insurance might increase participation in the program not only by encouraging workers with disabilities to apply but also by discouraging those who are receiving benefits from leaving.¹⁶

The recently enacted Affordable Care Act is likely to influence future application rates for the DI program (especially after 2014, when new health insurance requirements are set to take effect under the law), but whether it will result in more or fewer beneficiaries is difficult to predict.¹⁷ Among other changes, that legislation will make it easier for people who have health problems to buy their own insurance; it will also provide new subsidies for individually purchased coverage and expand

13. In calendar year 2011, the number of DI applications dropped slightly, to just under 2.9 million; see Social Security Administration, "Selected Data from Social Security's Disability Program" (May 2012), www.ssa.gov/OACT/STATS/dibStat.html.

14. See Su Liu and David C. Stapleton, "Longitudinal Statistics on Work Activity and Use of Employment Supports for New Social Security Disability Insurance Beneficiaries," *Social Security Bulletin*, vol. 71, no. 3 (August 2011), pp. 35–59, www.ssa.gov/policy/docs/ssb/v71n3/index.html. Those authors found that over a 10-year period, about 4 percent of an entering cohort of new DI beneficiaries left the program to take a job.

15. For additional discussion, see L. Scott Muller, "The Effects of Wage Indexing on Social Security Disability Benefits," *Social Security Bulletin*, vol. 68, no. 3 (December 2008), pp. 1–44, www.ssa.gov/policy/docs/ssb/v68n3/index.html; Autor and Duggan, "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding"; and Kalman Rupp and David C. Stapleton, "Determinants of the Growth of the Social Security Administration's Disability Programs—An Overview," *Social Security Bulletin*, vol. 58, no. 4 (October 1995), pp. 43–70, www.ssa.gov/policy/docs/ssb/v58n4/index.html.

16. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*, Current Population Reports, P60-239 (September 2011), Table C-1, www.census.gov/prod/2011pubs/p60-239.pdf.

17. The Affordable Care Act comprises the Patient Protection and Affordable Care Act (Public Law 111-148) and the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152).

eligibility for Medicaid in states that choose to do so. On the one hand, applications to the DI program may decline—because people who do not have employment-based health insurance will find it easier to obtain subsidized coverage as well as to gain access to health care without applying for DI benefits. On the other hand, applications to the DI program might increase—because some people who would lose employment-based health coverage if they left their jobs to apply for DI benefits will have access to insurance during the two-year waiting period for Medicare benefits, with no exclusions for pre-existing conditions, through the health insurance exchanges that will be established under the law. Moreover, that insurance might be subsidized, depending on an individual’s income.

Approaches to Addressing the Fiscal Imbalance in the Disability Insurance Program

Alleviating the financial pressures on the DI program will require a substantial increase in revenues for the program, a substantial decrease in the program’s costs, or some combination of those two approaches. On the revenue side, options are straightforward but limited: To expand revenues, DI taxes paid by employers or employees (or both) must rise, or some other source of funding must be used. In contrast, options for reducing costs are both more complex and more numerous: For example, the components of the formula that is used to calculate DI benefits could be altered, as could one or more of the rules used to help determine eligibility for the program. CBO evaluated a variety of options that policymakers or researchers have identified, focusing on the following:

- The formula for computing benefits,
- The factors that increase benefits over time,
- Changes in eligibility that affect the number of workers who enter the DI program and the likelihood that people who are receiving benefits will leave the program and return to work, and
- Changes in the length of time people must wait to enter the program after they apply for benefits.

For each option, CBO assumed that the policy would take effect at the beginning of calendar year 2013. Estimates of the budgetary effects of the options during the next decade—which are derived from the agency’s March 2012 baseline—are presented as nominal dollars in 2022 and as percentage changes from currently scheduled outlays or revenues; estimates of budgetary effects beyond the next decade—which are derived from the agency’s June 2012 long-term budget projections—are presented solely as percentage changes in DI revenues or outlays from the projections for 2037 under current law (see Table 1).¹⁸

With a couple of exceptions, as noted below, CBO’s estimates of the budgetary effects of the policies include savings or costs to the DI program itself and to the Social Security Old-Age and Survivors Insurance program when the effects on OASI are simply a result of DI beneficiaries’ transferring to the OASI program.¹⁹ (Benefits for DI beneficiaries who shift to the OASI program are paid from the OASI trust fund.) Modifications to the DI program would necessarily affect several other federal programs in addition to the Social Security Old-Age and Survivors Insurance program, including, most significantly, Medicare, Medicaid, and the Supplemental Security Income program. For the policy options presented in this study, CBO generally has not estimated the effects they might have on those other federal programs. (For a more complete discussion of such interactions, see Box 1.)

18. CBO’s baseline is a neutral reference point for measuring the budgetary effects of proposed changes to federal revenues or spending. It consists of projections of outlays, revenues, and the deficit or surplus over 10 years calculated according to rules originally set forth in the Balanced Budget and Emergency Deficit Control Act of 1985. For more details about CBO’s most recent 10-year current-law baseline projections, see Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012). For CBO’s long-term budget estimates, see Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012).

19. CBO’s estimate for the policy option that modifies the factors used to adjust DI benefits (that is, the option involving the chained consumer price index) includes the effects of applying that option to all OASDI beneficiaries and not just to those who shift from the disability to the retirement portion of Social Security. CBO’s estimate for the policy option that eliminates DI eligibility starting at age 62 shows both the savings for the DI program and the costs to the OASI program for people who claim OASI benefits in lieu of DI benefits after age 62.

Table 1.**Summary of Possible Approaches to Changing the Disability Insurance Program**

	Number of Disabled Worker Beneficiaries Affected in 2022 (Thousands)	Effect on DI Revenues or Outlays		
		In Billions of Dollars in 2022	Percentage Change from Currently Scheduled Revenues or Outlays	
			In 2022 ^a	In 2037 ^b
Reducing the DI Program's Fiscal Imbalance				
<i>Effects on Revenues</i>				
Increase Revenues				
Raise the DI tax rate by 0.4 percentage points ^c	n.a.	28	18	22
Increase the amount of earnings that are taxable ^c	n.a.	13	8	8
<i>Effects on Outlays</i>				
Change the DI Benefit Formula				
Reduce all benefits by 15 percent	6,200	-22	-11	-14
Reduce DI benefits for people age 53 and older	1,900	-6	-3	-7
Change How DI Benefits Grow Over Time—Reduce COLAs by Using a Different Measure of Inflation ^{d,e}				
	10,100	-3	-1	-2
Change Eligibility Rules				
Eliminate eligibility starting at age 62 ^f	500	-12	-6	-6
Require applicants to have worked more in recent years	400	-8	-4	-5
Increase the age at which disability requirements become less restrictive	50	-1	-1	-3
Change Waiting Periods—Extend the Waiting Period for Benefits from 5 Months to 12 Months				
	900	-11	-6	-7
Providing Greater Support to DI Beneficiaries—Effects on Outlays				
Increase the COLA by 1 Percentage Point ^d	10,100	16	8	6
Eliminate the 5-Month Waiting Period	900	8	4	5

Source: Congressional Budget Office.

Note: DI = disability insurance; n.a. = not applicable; COLA = cost-of-living adjustment.

- a. Changes are measured against CBO's March 2012 baseline; see Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012).
- b. Changes are measured against estimates in Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012).
- c. Estimates of revenues for 2022 provided by the staff of the Joint Committee on Taxation.
- d. CBO's estimates for options affecting COLAs apply to all beneficiaries; estimates for all other options that change outlays apply only to new beneficiaries in 2013 and later.
- e. CBO's estimates for this option apply the reduction in the COLA to beneficiaries of the entire Social Security system—the Old-Age and Survivors (OASI) and Disability Insurance programs—and to recipients of Supplemental Security Income. The table shows only the savings to the DI program. Savings for all three programs would total \$25.0 billion in 2022.
- f. CBO's estimates for this option apply the elimination of eligibility to DI beneficiaries only. The resulting savings are offset by an increase in OASI benefits of \$9.3 billion in 2022, for a net reduction in Social Security spending of \$2.4 billion in that year.

Box 1.**Other Federal Programs That May Be Affected by Changes to the Disability Insurance Program**

The Social Security Disability Insurance (DI) program is linked to many other federal programs, most notably the Old-Age and Survivors Insurance (OASI) program, the retirement component of the Social Security system; the Supplemental Security Income (SSI) program; and federal health care programs, including Medicare and Medicaid. Changes to the DI program that affected a person's eligibility for DI benefits could have an impact on spending for OASI, Medicare, SSI, and Medicaid. Changes to the DI program that affected the size of the DI benefit that a person received but did not alter the eligibility criteria for the program would generally affect spending for SSI and Medicaid but not spending for OASI or Medicare. Because of the additional time that would have been required, the Congressional Budget Office (CBO) has not estimated how the policy options considered in this study would affect spending for and participation in those other federal programs. (In a formal cost estimate for legislation, CBO would attempt to assess the combined effects for all of the affected programs.)

The Old-Age and Survivors Insurance Program

The reduced spending for the DI program that resulted from policy options to tighten its eligibility requirements would be partially offset by increased spending for OASI. The offset is partial because not everyone who would lose their eligibility for DI benefits would be eligible for OASI, and people who would be eligible for OASI would generally receive a smaller benefit under that program's rules.

Most people who became ineligible for the DI program because of a change in policy would probably apply for OASI benefits as soon as they became eligible for them, at age 62. The benefits they would receive from the retirement program would be smaller than those they would have received from the DI program, CBO expects, because retirement benefits are reduced for workers who claim them before the full retirement age (the age of eligibility for unreduced Social Security retirement benefits) and most people who lost their eligibility for DI benefits would claim retirement benefits at the earliest possible opportunity. (Individuals who claim retirement benefits at age 62 currently receive 75 percent of the benefit they

would have received if they had been eligible for the DI program; that proportion is scheduled to decline to 70 percent by 2022.) In 2010, more than 7 percent of initial DI awards went to people age 62 or older; another 52 percent of awards went to people ages 50 to 61. (Changes in policy that are directed at older DI recipients, such as not allowing people age 62 or older to apply for DI benefits, would have a much greater impact on OASI than would policies directed at younger people because a larger share of the people affected would be eligible for OASI.)

Medicare

Because almost all DI beneficiaries are eligible for Medicare after a two-year waiting period, changes to the eligibility requirements for the DI program would also affect the number of people who were eligible for Medicare and, correspondingly, spending for that program. The effects would probably be significant: Medicare's spending per disabled beneficiary averaged about \$10,500 in 2009, or more than 80 percent of the DI benefits that the average disabled beneficiary received in that year. Policies that reduced the number of people who were receiving DI benefits would also lower spending for Medicare. However, policies that decreased average DI benefits without reducing the number of people who received them would not affect Medicare's spending.

Supplemental Security Income

The Supplemental Security Income program was established in 1974 to provide cash assistance to individuals with low income and few assets who are also disabled or elderly. The disability standard is the same for the SSI and DI programs; however, the DI program provides benefits only to people with a sufficient history of work. About 15 percent of DI beneficiaries concurrently receive benefits from the SSI program, and about 30 percent of DI beneficiaries received SSI benefits at some point during their first five years of eligibility for the DI program. Accordingly, policy options that increased or decreased spending for the DI program would tend to have partially offsetting budgetary effects in the SSI program.

Continued

Box 1.**Continued****Other Federal Programs That May Be Affected by Changes to the Disability Insurance Program**

For example, a policy option that lowered benefits from the DI program would increase SSI's costs, for two reasons: First, dually eligible beneficiaries would receive larger SSI benefits to partially offset the income from the DI program that they would lose, and, second, some DI recipients who were not currently eligible for SSI benefits would become eligible because their income would be lower as a result of the reduced DI benefits they would receive under the policy option. Thus, a policy that lengthened the DI program's waiting period for benefits would probably increase the number of people eligible for the SSI program and the average benefit that the program paid, because the policy would reduce beneficiaries' income to below the SSI eligibility threshold (or to further below the threshold) during the extended waiting period.

By comparison, options that increased DI benefits would generally lead to lower SSI costs. And proposals that changed the definition of disability in both programs would affect spending for both programs in the same direction.

Medicaid

The DI program is not tied specifically to Medicaid. But any policy that affected eligibility for SSI benefits would generally affect eligibility for Medicaid because in most states, SSI beneficiaries are automatically eligible for Medicaid. Thus, a person who is eligible for both the DI and SSI programs is usually eligible for Medicaid's coverage of his or her health care costs during the two-year waiting period for Medicare; those costs are shared by the federal government and the states. After individuals who are eligible for both DI and SSI benefits gain access to Medicare, Medicaid continues to cover costs and services that Medicare does not pay for.

A policy option that changed the number of DI beneficiaries or the program's benefits could affect federal Medicaid costs by shifting some people between Medicaid coverage groups that generate different federal payments to states, even if the option did not change the overall number of people eligible for Medicaid. For example, beginning in 2014, the Affordable Care Act (ACA) will extend Medicaid coverage to additional low-income people in states that choose to undertake that expansion.¹ The federal

government will pay a larger share of the costs for those new enrollees as compared with the federal share of costs for people who were eligible for Medicaid under prior law. As a result, the federal share of any additional Medicaid costs stemming from a change in the DI program will depend on whether an individual falls into the new ACA-coverage group or into a prior-law-coverage group.

Health Insurance Exchanges

Policies that changed the number of DI beneficiaries or the program's benefits could affect federal payments for premium or cost-sharing assistance provided through health insurance exchanges that will be established under the ACA. Beginning in 2014 under that legislation, certain people who do not qualify for Medicaid or for affordable insurance coverage from other sources will be eligible for subsidies to purchase health insurance through the exchanges. The amount of the subsidy for which a qualified individual is eligible will vary with his or her income. Policies that modified DI benefits would tend to alter the costs of those subsidies by changing the number of people who would be eligible for them and the amount of the subsidies those individuals would receive.

Revenues and Other Federal Programs

Changes to the DI program would have a smaller impact on revenues (apart from those dedicated to the DI program and those associated with the subsidies provided through health insurance exchanges) and on other government programs than they would have on the programs discussed above. Some of the policy options that CBO analyzed would affect tax receipts because workers and their dependents might work more or less and thus have more or less in taxable earnings. In addition, some of the policy options would affect benefits under the Supplemental Nutrition Assistance Program (formerly known as food stamps), which uses income and assets to determine eligibility. Moreover, the policy options would interact with workers' compensation programs.

1. The ACA comprises the Patient Protection and Affordable Care Act (Public Law 111-148) and the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152).

In its analysis, CBO also evaluated two changes that could be made at the administrative level—in particular, how the Social Security Administration hires and trains employees who conduct disability application hearings and how the agency reexamines disability cases over time. However, because evidence on the effects of such changes is limited, CBO did not estimate their potential budgetary impact.

Increase the Program's Revenues

The DI program is funded primarily through a portion of the Social Security payroll tax, which is split evenly between employers and employees.²⁰ (Self-employed workers pay the entire tax.) The total Social Security payroll tax is 12.4 percent and is applied to earnings up to a maximum amount that generally increases over time with average earnings nationwide. The DI program's share of that tax is 1.8 percentage points; in other words, the DI tax rate today is 1.8 percent, implying that employers and employees each pay a rate of 0.9 percent.

One approach to addressing the DI program's budgetary imbalance would be to raise the DI tax rate.²¹ Based on analysis that CBO conducted with the staff of the Joint Committee on Taxation, restoring long-term balance (over the next 75 years) between the program's costs and revenues would require that the DI payroll tax rate be increased by 0.4 percentage points (or 0.2 percentage points each for the employee and employer), to 2.2 percent. At that rate, revenues would be higher than in CBO's baseline projection by \$28 billion in 2022, JCT estimates. In 2037, revenues would be higher than CBO's long-term budget projection by 22 percent, in CBO's estimation. Such an increase in the tax rate would equalize costs and revenues, on average, over a 75-year time horizon but would leave a significant funding shortfall over the next few decades.

Another way to expand revenues would be to increase the maximum taxable earnings limit—that is, the highest amount of employees' wages subject to the DI tax. The

earnings of workers in the highest income groups have grown faster than average earnings in recent decades. As a result, the share of all earnings covered by the Social Security program that were below the taxable maximum shrank from about 91 percent in 1983 to about 84 percent in 2010. By 2037, CBO projects, about 83 percent of all covered earnings will fall below the limit.²² Increasing the taxable earnings limit only for the DI program (the limit for the other Social Security programs would not be raised) to cover 90 percent of earnings—that is, increasing the maximum taxable earnings limit for the DI portion of the payroll tax from its projected level of \$113,400 in 2013 to \$174,000—would produce an additional \$13 billion in revenues in 2022 and increase revenues by 8 percent in 2037.²³

Those two methods of altering the DI program's revenues would affect taxpayers in different ways. Increasing the rate of the DI payroll tax across the board for employers and employees would spread the costs among all people with labor earnings. In contrast, raising the maximum taxable earnings limit would increase taxes only for higher earners, leaving the majority of DI taxpayers unaffected. In terms of workers' incentives to try to work more hours or to work harder, policies that raised payroll taxes would have opposing effects: On the one hand, an increase in the tax rate for disability insurance would encourage affected workers to work fewer hours or to work less hard because they would keep less of each extra dollar they earned; on the other hand, those workers would earn less after-tax income by working their current number of hours at their current level of effort, which would encourage them to increase the number of hours they worked and their work effort. CBO concludes, as do most analysts, that the former effect outweighs the latter and that higher tax rates reduce the supply of labor.²⁴ However, the estimates presented here do not incorporate any changes in the supply of labor.

20. In addition to payroll tax receipts, a portion of the income taxes paid on Social Security retirement benefits is credited to the DI trust fund. The government maintains a separate trust fund for the Old-Age and Survivors Insurance program.

21. Another approach would be to redirect revenues to the DI trust fund from the OASI trust fund, a course that was followed in legislation enacted in 1994. However, such a redirection of resources would worsen the outlook for the OASI program.

22. The maximum taxable earnings limit is \$110,100 in 2012. Historical data are taken from Social Security Administration, *Annual Statistical Supplement, 2011* (Office of Retirement and Disability Policy, February 2012), Table 4.B1.

23. For those estimates, CBO did not assume that benefits would be increased to reflect the higher maximum taxable earnings limit. If benefits were increased to reflect that change, the net savings from this option would be smaller.

24. For further discussion, see Congressional Budget Office, *The 2012 Long-Term Budget Outlook*, pp. 36–37.

Reduce the Program's Spending

Options that reduce spending for the DI program would require scaling back either the number of beneficiaries the program serves or the amount of support each beneficiary receives. The challenge facing policymakers who are aiming to lower spending is to choose options that maximize savings while minimizing the harm inflicted on people whose disabilities prevent them from working.

Change the DI Benefit Formula. One way to reduce the costs of the DI program would be to alter the amount of insurance it provides by changing the formula used to calculate benefits. Like Social Security retirement benefits, DI benefits are based on a worker's past earnings and are calculated using a progressive formula that replaces more of the earnings of low-wage workers than of high-wage workers.²⁵ (That is, workers who have higher earnings receive larger benefits, but the replacement rate—the portion of a worker's earnings that the benefits replace—declines as earnings rise.) Specifically, the primary insurance amount (PIA) formula for DI benefits has three components, any of which could be altered by policymakers (see Figure 2):

- *Average indexed monthly earnings (AIME).* The AIME is a measure of a worker's lifetime earnings. It is calculated as the sum of his or her earnings, indexed to compensate for inflation and for the real (inflation-adjusted) growth of wages in the economy as a whole, divided by the number of months over which the earnings were obtained.²⁶ For disabled worker benefi-

ciaries, the AIME is computed by using an individual's indexed earnings between the age of 22 and the year of onset of his or her disability.

- *Primary insurance amount factors.* The PIA factors are the rates by which the components of the AIME are multiplied—specifically, 90 percent, 32 percent, and 15 percent. The PIA factors, which are fixed by law, have been at those levels since 1977.²⁷
- *Bend points.* The dollar amounts of the AIME at which the PIA factors change are called “bend points.” They govern the portions of the AIME associated with each PIA factor and change annually when the national average wage index rises. In 2011, the bend points were \$749 and \$4,517. Thus, a person with an AIME below \$749 received a DI benefit equal to 90 percent of that amount; a person with an AIME between \$749 and \$4,517 received 90 percent of the first \$749 and 32 percent of the remainder; and a person with an AIME above \$4,517 received 90 percent of the first \$749, 32 percent of the next \$3,768 (\$4,517 minus \$749), and 15 percent of the amount above \$4,517.

CBO analyzed two options that are based on modifying the formula for computing DI benefits.

Reduce All Benefits by 15 Percent. Policymakers could choose to reduce all DI benefits by the same amount, a change that would maintain the progressivity of the DI program. For example, benefits for newly eligible workers could be cut by 15 percent by reducing each PIA factor by that percentage (to 77 percent, 27 percent, and 13 percent). Under that version of the option, the average DI benefit for disabled workers in 2012 would decline from \$1,111 per month to \$944 per month. Outlays for DI would fall by \$22 billion in 2022 and by 14 percent in 2037.²⁸

25. For a more detailed discussion of the Social Security benefit formula, see Congressional Budget Office, *Social Security Policy Options* (July 2010).

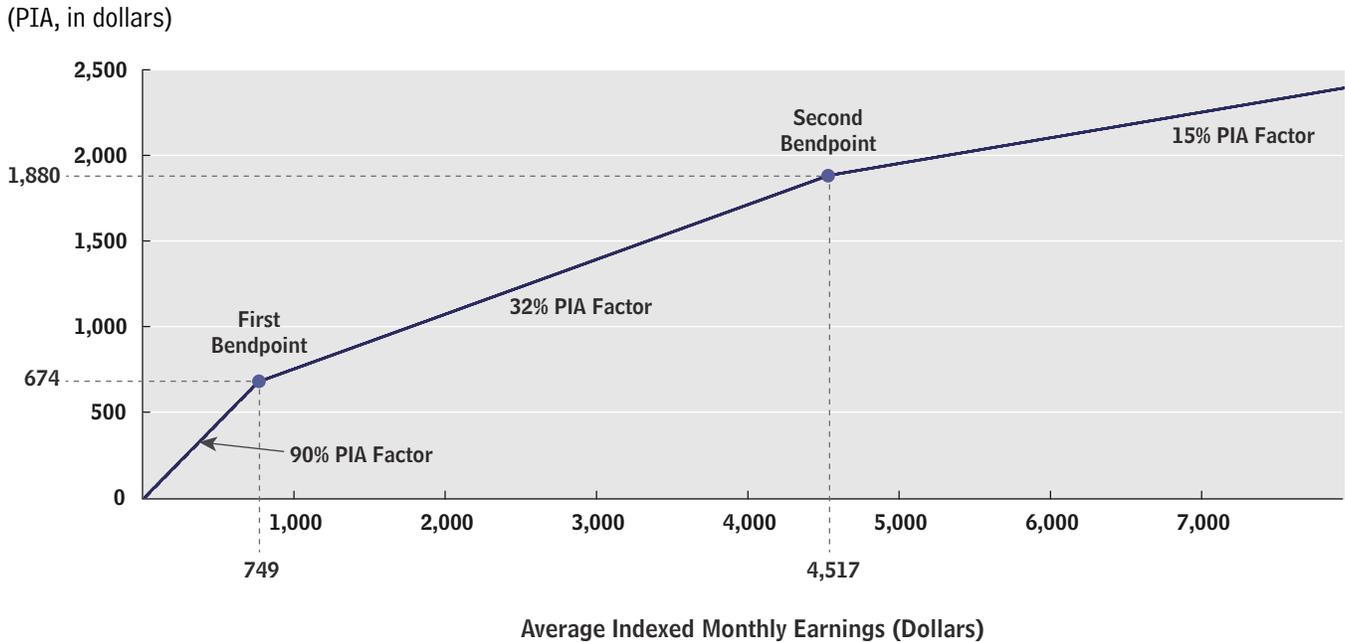
26. Indexing ensures that a worker's benefits reflect the general rise in the standard of living that occurred during his or her working lifetime. Thus, a worker's nominal earnings for the appropriate working years are converted to near-current wage levels on the basis of changes in average annual earnings in the economy as a whole. For disabled workers, the calculations record earnings at their actual amounts for the two years before the initial computation of benefits and earlier earnings as indexed amounts. For a related discussion, see David H. Autor and Mark G. Duggan, “The Rise in the Disability Rolls and the Decline in Unemployment,” *Quarterly Journal of Economics*, vol. 118, no. 1 (February 2003), pp. 157–205, <http://economics.mit.edu/files/579>. Those authors have shown that rising income inequality in the United States combined with indexing by the average wage level has significantly raised the earnings replacement rate for DI benefits provided to low-wage workers.

27. For further discussion, see Social Security Administration, “Automatic Determinations: Social Security Benefit Amounts” (October 19, 2011), www.ssa.gov/oact/cola/Benefits.html; and Muller, “The Effects of Wage Indexing on Social Security Disability Benefits.”

28. In earlier work, CBO estimated the costs associated with the same option for the entire OASDI program and found that outlays for the Social Security system would decline by about 12 percent relative to outlays currently scheduled for 2040. See Congressional Budget Office, *Social Security Policy Options*, p. 21.

Figure 2.

Primary Insurance Amount Formula for Computing Disability Insurance Benefits in 2011



Source: Congressional Budget Office.

Notes: The section in the text titled "Change the DI Benefit Formula" on page 11 describes the computation of benefits.

PIA = primary insurance amount.

Changes to benefits in the DI program would also directly affect other federal programs that use applicants' income and assets to determine eligibility or amounts of support. In particular, people whose DI benefits were reduced would be more likely to qualify for the Supplemental Security Income program and Medicaid. Lower DI benefits might also deter some people from participating in the DI program, which would reduce outlays in related programs, such as Medicare. However, if fewer people applied for DI benefits, outlays might rise in the retirement portion of Social Security if people then claimed their retirement benefits earlier than they otherwise would have. CBO did not estimate the effects of this option on outlays for programs other than DI.

Reduce DI Benefits for People Age 53 and Older. Under the current Social Security system, workers who claim retirement benefits at age 62 rather than at their full retirement age are subject to an actuarial reduction that lowers their benefits for as long as they live. In contrast, workers who at age 62 move from employment to the DI program's rolls, and then to Social Security's retirement program at their full retirement age, are not subject to a reduction.

Instead, they receive approximately the same retirement benefits in each year that they would have received if they had enrolled directly in the retirement program at their full retirement age. A potential change to benefits for DI beneficiaries would be to impose the same penalty on them at age 62 that is now paid by early retirees.

CBO analyzed the budgetary effects of such an option by considering an approach that would reduce newly awarded benefits for older workers on the basis of their age. Specifically, for people born in 1960 and later, CBO estimated the effect of permanently reducing an older person's DI benefits at the time the benefits are first awarded; starting at age 53, benefits would be reduced by 3 percent, with an additional 3 percent reduction occurring at each subsequent year of age. Thus, a person who was newly awarded benefits at age 54 (in 2014 or later) would face a permanent reduction in benefits of 6 percent, a person who was newly awarded benefits at age 55 (in 2015 or later) would face a permanent reduction in benefits of 9 percent, and so on. Ultimately, a new beneficiary who was 62 years old would receive a permanent benefit reduction of 30 percent, which is equal to the

reduced Social Security retirement benefit at that age for workers born in 1960 and later. A new beneficiary between the ages of 62 and 67 (the full retirement age for that group of workers) would receive a benefit equal to the Social Security retirement benefit he or she would have received at that age.

If such a schedule of reductions was put in place at the beginning of 2013, the option would affect about 2 million people in 2022 and would reduce outlays by about \$6 billion in that year and by nearly 7 percent in 2037, CBO estimates. Under the option, monthly support for people who were newly awarded benefits in 2022 would be reduced, on average, by between \$50 (for 53-year-olds) and \$600 (for 62-year-olds). Again, changes in the benefits provided through the DI program would directly affect spending for other parts of the Social Security system, Medicare, Medicaid, and SSI, but CBO did not estimate those effects.

Change How DI Benefits Grow Over Time. The DI program adjusts disabled workers' benefits annually to account for increases in the prices of goods and services. For those calculations, the program currently uses the consumer price index for urban wage earners and clerical workers (CPI-W); under this option, the program would switch to a different indexing factor—specifically, the chained CPI.²⁹ Over the next 10 years, CBO estimates, the chained CPI is likely to grow more slowly than the current CPI-W—on average, 0.25 percentage points per year more slowly. If that trend continued, this option would effectively reduce the growth of benefits for all DI beneficiaries. For example, the benefit of a disabled worker under current law might have grown during the next 10 years from \$1,111 per month to \$1,344 per month, but that same worker's benefit under this option (that is, indexation using the chained CPI) would grow more slowly, from \$1,111 per month to \$1,312 per month.

In CBO's estimation, DI outlays would fall by about \$3 billion in 2022 if the chained CPI was used; in 2037, use of that alternative indexing measure would reduce outlays for the program by about 2 percent. If lawmakers decided to use the chained CPI simultaneously to index benefits in the Old-Age and Survivors' Insurance

program, outlays for those components of Social Security would fall by over \$20 billion in 2022. If they also applied the change in policy to SSI, its outlays would fall by nearly \$2 billion in 2022. In contrast, if policymakers did not require use of the chained CPI for indexing SSI benefits, outlays for that program would increase slightly in response to the lower benefits that the option would provide to DI beneficiaries.

Change Eligibility Rules. The eligibility standards for receiving benefits from the DI program could be altered in numerous ways.

Eliminate Eligibility Starting at Age 62. As noted earlier, the DI benefits that workers receive at age 62 equal the full OASI (retirement) benefit they would have received at their full retirement age, a policy that encourages people to apply for DI and OASI benefits simultaneously. (Some individuals claim OASI benefits during the five-month waiting period that the DI program imposes on applicants for benefits. Those individuals' receipt of OASI benefits during the waiting period reduces their DI and subsequent OASI benefits for the rest of their lives.)

CBO estimated the budgetary impact of preventing workers from applying for DI benefits after their 62nd birthday or from receiving awards if the date they become eligible for benefits is after that birthday. Under such a policy, individuals who would have become eligible for DI benefits at age 62 or later would instead have to claim retirement benefits. Benefits for those men and women over their lifetime would be as much as 30 percent lower, on average, than the DI and OASI benefits they would have claimed. (The actual reduction in lifetime benefits would depend on their year of birth, the age at which they claimed retirement benefits, and how long they lived.) On the one hand, the option might induce some people to work longer than they would have worked under current law; on the other hand, it might induce some people who were planning to work until age 62 or 63 to leave the labor force at age 61 and apply for DI benefits. The option also would deny support to some older disabled people who would have relied on those larger benefits and on the associated Medicare coverage.

In CBO's estimation, the option would affect about 500,000 people in 2022 and would reduce DI outlays by about \$12 billion in 2022 and by about 6 percent in 2037. However, most of those budgetary savings would be offset by larger outlays for Social Security retirement

29. For a broader discussion of the effects of such a switch, see Congressional Budget Office, *Using a Different Measure of Inflation for Indexing Federal Programs and the Tax Code* (February 2010).

benefits as people shifted from the DI to the OASI program. OASI outlays under this option would rise by over \$9 billion in 2022, CBO estimates, thereby reducing net savings for the Social Security system to about \$2 billion.

Require Applicants to Have Worked More in Recent Years.

To be eligible for benefits under the current DI program, disabled workers must generally have worked 5 out of the past 10 years.³⁰ CBO estimated the budgetary effects of a policy that would tighten that eligibility rule by requiring disabled workers to have worked 4 of the past 6 years. The tighter policy would reduce the number of workers who received DI benefits by 4 percent, CBO estimates, and would decrease outlays for the program by \$8 billion in 2022. Expenditures on the program in 2037 would be about 5 percent lower.

Increase the Age at Which Disability Requirements Become Less Restrictive.

One set of DI eligibility criteria for people who do not have a specific SSA-designated medical impairment is based on whether an individual can find a job within the U.S. economy. The criteria are known as vocational factors, and they vary with age, becoming less restrictive at ages 45, 50, 55, and 60 than they are at earlier ages.³¹ For example, according to the current DI program's criteria, a worker who was 45 to 49 years old, whose "maximum sustained work capacity" was limited to sedentary work, who had no experience doing skilled work, and who was illiterate or unable to communicate in English would be considered disabled under the vocational criteria and awarded benefits if he or she had a sufficient work history.³² In contrast, his or her younger counterparts would not immediately qualify for the DI program.

CBO estimated the budgetary impact of shifting upward the age ranges for the vocational factors. The current factors for ages 45 to 49, 50 to 54, and 55 to 59 would

apply instead to ages 47 to 51, 52 to 56, and 57 to the full retirement age, respectively; the current vocational factor for age 60 and the factors for ages 45 to 46 would be eliminated. Under such a policy, the number of DI recipients would fall by about 50,000, or 0.5 percent, in 2022. Expenditures for the DI program would fall by \$1 billion in that year, CBO estimates, and by 3 percent in 2037. By reducing participation in the DI program, the option would also reduce participation in Medicare (and thus Medicare outlays) but would result in greater outlays for SSI and Medicaid. CBO did not estimate the effects on outlays for those programs.

Extend the Waiting Period for Benefits from 5 Months to 12 Months.

To be deemed eligible for the DI program and ultimately to be awarded benefits, applicants must have earnings that fall below a threshold amount—called the substantial gainful activity (SGA) amount—for at least five months, which constitutes a waiting period during which applicants receive no support from the program. For example, suppose a worker becomes disabled on January 15 and leaves the labor force. The worker then applies to the DI program for benefits, and SSA awards them to the worker on November 1 of that year. The worker's eligibility date is therefore July 1, or five months after the onset of disability, which SSA sets as February 1. (Unless the date of disability onset is the first day of the month, SSA pushes dates of onset to the first day of the next month.) In addition to receiving monthly DI benefits from November 1 onward, the worker also receives retroactive benefits for the period between the date of eligibility (July 1) and the awarding of benefits (November 1).

Increasing the DI program's waiting period would reduce outlays for benefits and might deter some people from applying. At the same time, if the waiting period was lengthened, it would make many disabled workers worse

30. For the purposes of computing Social Security benefits, a year of work is defined as having earnings that exceed Social Security's "quarters of coverage" threshold. In 2012, a worker receives one-quarter of coverage (up to a total of four quarters in the year) for each \$1,130 of annual earnings. The amount of earnings required for a quarter of coverage generally increases annually at the same rate as the rise in the average wage index.

31. Recent research shows the large increase in the rate of DI awards at those ages. See Joyce Manchester and Jae G. Song, "What Can We Learn from Analyzing Historical Data on Social Security Entitlements?," *Social Security Bulletin*, vol. 71, no. 4 (November 2011), pp. 1–13, www.ssa.gov/policy/docs/ssb/v71n4/index.html.

32. See Social Security Administration, "Appendix 2 to Subpart P of Part 404—Medical-Vocational Guidelines," *Code of Federal Regulations* (November 2011), www.ssa.gov/OP_Home/cfr20/404/404-app-p02.htm. SSA's definition of "maximum sustained work capacity" is related to the kinds of tasks a person can perform at work, and its definition of "sedentary work" is related to the amount of weight a worker can lift or carry and the amount of time he or she can stand, walk, and sit. See Social Security Administration, "DI 25001.001 Medical-Vocational Quick Reference Guide," TN 6 (03-10) (May 2012), <http://policy.ssa.gov/poms.nsf/lnx/0425001001>.

off because they would be forced to wait longer for benefits.

CBO estimated that under a policy in which the waiting period for DI benefits was extended to 12 months, DI outlays would fall by \$11 billion in 2022 and by about 7 percent in 2037. Outlays for the SSI program, however, would be higher with that extended waiting period: People's income would be lower until they entered the DI program, and, in CBO's estimation, the increase in SSI spending that would result from that lower income would offset roughly one-eighth of the DI program's savings. CBO assumed that DI beneficiaries' eligibility for Medicare under this option would still begin 29 months after the onset of disability (the sum of the 5-month initial waiting period for benefits plus the 24-month waiting period for Medicare coverage once a disabled worker was awarded benefits), so spending for Medicare under the option would probably be little changed.

Change Certain Administrative Features of the DI Program. SSA could alter the administration of the DI program in a number of ways that might affect the program's costs. CBO identified two such potential changes: modifying certain aspects of the appeals process associated with applying to the program and altering how SSA reexamines disability cases over time. However, because there is little evidence as to the impact such policies would have, CBO did not estimate their potential budgetary effects.

Modify the Appeals Process for Disability Claims. The initial consideration and disposition of a disabled worker's application for benefits from the DI program are the job of the Disability Determination Services (DDS), which are agencies funded by SSA and administered by the states.³³ If a person's application is denied at the DDS level, the applicant can either terminate the application process or appeal the decision. Certain appeals may be adjudicated before administrative law judges—individuals appointed by SSA who conduct hearings at about 180 offices across the country.³⁴ Those officials are trained at the local hearing office at which they are employed.

33. For details on the application and appeals process, see Congressional Budget Office, "DI: The Social Security Disability Insurance Program" (infographic, July 2012).

34. Social Security Administration, *Annual Statistical Supplement, 2011*, Table 2.F1.

Researchers have suggested different ways in which SSA could improve the administration of the DI program at the hearings level. They include modifying the selection criteria for administrative law judges, increasing the length of their training, and improving the consistency of training among localities. Another example of a possible change in the program's administrative procedures involves altering the hearing process. Applicants for DI benefits are permitted legal representation at appeal hearings, whereas SSA is not. Policymakers could allow SSA to be so represented, which in the short term would add certain costs for hiring and training but might over the long run result in lower spending for the program because fewer people would be admitted.³⁵ However, the effects that any of those modifications would have on the disability determination process are uncertain, and CBO has not estimated their budgetary impact.

Increase the Frequency of Continuing Disability Reviews. An option related to recent growth in the DI program involves SSA's periodic reexamination of cases through continuing disability reviews (CDRs). CDRs help the agency determine whether disabled workers are still eligible for benefits, and they tend to lower outlays for the program because the average reduction in benefits associated with a CDR is significantly greater than the average cost of a review. The Budget Control Act of 2011 (Public Law 112-25) allows lawmakers to adjust the current limits on overall federal discretionary spending to permit additional appropriations for conducting CDRs. (That additional money may also be used to fund CDRs for SSI beneficiaries and redeterminations of whether SSI recipients still meet the program's nonmedical eligibility criteria—that is, those related to income and assets.)³⁶

In its 2011 cost estimate for the Budget Control Act, CBO estimated the effect on outlays if the Congress

35. See Autor and Duggan, "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding"; and Social Security Advisory Board, *Improving the Social Security Administration's Hearing Process* (September 2006), www.ssab.gov/documents/HearingProcess.pdf, and *Charting the Future of Social Security's Disability Programs: The Need for Fundamental Change* (January 2001), www.ssab.gov/Publications/Disability/disabilitywhitepap.pdf.

36. The law allows for similar adjustments to the spending limits for additional appropriations for Medicare, Medicaid, and the Children's Health Insurance Program to ensure that enrollees meet the programs' eligibility criteria, that claims are paid accurately, and that the programs are managed effectively and efficiently.

appropriated the maximum amounts for which such adjustments to the spending limits could be made. In CBO's estimation, such appropriations would add about \$4 billion in funding for SSA to CBO's baseline for the coming decade. In addition, if that additional funding was appropriated, spending for benefits from the DI program, SSI, Medicare, and Medicaid would fall by nearly \$12 billion during the 2012–2021 period, and additional savings would accrue after 2021.³⁷ CBO has not estimated the effects of even larger appropriations for such purposes or of other changes in the manner in which CDRs are conducted.

Options to Provide Greater Support to Disability Insurance Beneficiaries

In light of the importance of DI benefits to the individuals and families who receive them, policymakers might want to provide greater amounts of support to certain disabled workers. CBO estimated the additional federal spending that would result from two options for increasing such assistance:

- Increase benefits for all DI beneficiaries beyond their first year of receiving benefits by raising the annual cost-of-living adjustment (COLA) by 1 percentage point, and
- Eliminate the five-month waiting period for benefits for workers who apply for disability insurance, thereby paying benefits to DI recipients from the date of onset of their disability.

Increase the COLA by 1 Percentage Point

One way in which lawmakers could provide greater support to DI beneficiaries would be to increase the rate at which benefits grow over time. One consequence of such a change is that disabled workers who became entitled to benefits at relatively younger ages would experience more years of the enhanced COLA in their benefits than would workers who were awarded support when they were older.

If the COLA was increased by 1 percentage point, CBO estimates, total outlays would rise by \$16 billion in 2022 and by 6 percent in 2037. Outlays for related programs

37. Congressional Budget Office, *letter to the Honorable John Boehner and the Honorable Harry Reid about CBO's analysis of the impact on the deficit of the Budget Control Act of 2011*, as posted on the Web site of the House Committee on Rules on August 1, 2011 (August 2011).

would change slightly under such a policy: Spending for programs that used applicants' income and assets to determine eligibility for benefits (SSI and Medicaid, for example) would be affected because people who received higher DI benefits as a result of the larger COLA might not be eligible for those programs. CBO did not estimate the magnitude of those effects.

Eliminate the Five-Month Waiting Period

If lawmakers eliminated the DI program's waiting period for applicants, a worker would be eligible for DI benefits the day he or she was deemed to become disabled or to have stopped working because of the onset of disability. As under the current program, DI beneficiaries would receive a "retroactive" benefit—a lump-sum payment for the time between their application to the program and their approval for benefits.

Under a policy that eliminated the waiting period, total DI outlays would rise by \$8 billion in 2022, CBO estimates, and by 5 percent of outlays in 2037. A policy that eliminated the DI program's waiting period would lead to additional DI benefits for disabled workers who would have been eligible for SSI and Medicaid, and it would therefore reduce outlays for those two programs. In particular, the reduction in SSI outlays would offset nearly one-tenth of the increase in DI spending.

Possible Approaches to Making Fundamental Changes in the Disability Insurance Program

Changes in the U.S. economy, advances in medicine and technology, and the evolution of views about disability during the past several decades suggest that the DI program's model of disability, in which disabled people leave the labor force, may be outdated. In particular, those recent economic and perceptual shifts suggest that a disability insurance system that emphasized workers' continuing in their jobs might lead to a higher rate of employment among those with disabilities than is now the case.³⁸

38. For further discussion, see Richard V. Burkhauser and Mary C. Daly, *The Declining Work and Welfare of People with Disabilities: What Went Wrong and a Strategy for Change* (AEI Press, 2011); and David H. Autor and Mark G. Duggan, *Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System* (Brookings Institution, Hamilton Project, December 2010), www.brookings.edu/papers/2010/12_disability_insurance_autor.aspx.

The effect of that kind of job-continuation model on the DI program's rolls and costs would depend on the structure of the changes in policy that established it, and only limited evidence is available on the potential impact of such changes. Therefore, CBO did not estimate the budgetary effects of specific changes of that sort. However, the agency reviewed proposals for such fundamental reforms to the DI program and summarized the main themes among them: moving to a so-called partial disability system or, for newly disabled workers, focusing on their rehabilitation and reemployment rather than on their receipt of benefits. In CBO's estimation, such changes are unlikely to provide significant short-term cost savings but could provide long-term savings or achieve other goals, such as improving the well-being of people with disabilities.

The Capacity for Work of People with Disabilities

At the time the DI program was established, in 1956, policymakers specified that beneficiaries be "unable to engage in any substantial gainful activity." Over the past half century, though, the labor market has changed considerably, shifting away from physically demanding jobs with rigid work schedules and toward jobs with a broader range of physical requirements and greater flexibility in how those jobs can be performed. That changed environment suggests there may be more opportunities today for disabled people to work. At the same time, views about people with disabilities have changed, emphasizing abilities rather than limitations, capacities over deficits. That modern view of disability was codified in 1990 with the passage of the Americans with Disabilities Act. The law requires that people with disabilities have equal access to employment (as well as to other activities) and that their employers make reasonable accommodations (for the use of such equipment as hearing aids and wheelchairs and through computer modifications to increase accessibility) to support their work.

Nonetheless, over the past 20 years, the employment rate among people with disabilities has declined sharply, from about 29 percent in calendar year 1990 to about 16 percent in 2010.³⁹ The drop in employment does not appear to be explained by a rising inability to work at all, nor does it seem to be attributable to the ups and downs of the business cycle. Instead, recent research shows that an increasing number of DI claims are coming from younger workers with mental or musculoskeletal disorders—despite other evidence indicating that those workers have the greatest capacity to remain part of the labor force.⁴⁰

Another study, using data on accepted and rejected applicants with similar conditions, also found that some new DI beneficiaries were able to continue working.⁴¹ To be sure, not all DI beneficiaries can be candidates for reemployment. Still, evidence of existing work capacity among disabled workers—as well as increased use of assistive technologies and workplace accommodations—implies that the design of the DI program might contribute to the relatively low rate of employment among people with disabilities.⁴²

Encouraging Work Among DI Beneficiaries and Applicants

One approach that policymakers have already used to try to increase employment among current and future DI beneficiaries is to provide support for their return to work. As currently designed, however, that approach does not appear to have had a significant effect. In 1999, lawmakers authorized the Ticket to Work and Work Incentives Improvement Act, under which DI beneficiaries may request employment or vocational rehabilitation services. The act was designed to encourage DI beneficiaries to find jobs and lessen their reliance on the program's benefits. In particular, the legislation provided the following:

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39. See Employment and Disability Institute, "U.S. Disability Statistics: Current Population Survey" (various years), www.disabilitystatistics.org. For a discussion of the technical issues related to measuring employment rates among people with disabilities, see Burt S. Barnow, "The Employment Rate of People with Disabilities," *Monthly Labor Review*, vol. 131, no. 11 (November 2008), pp. 44–50, www.bls.gov/mlr/2008/11/contents.htm.
 40. Till von Wachter, Jae Song, and Joyce Manchester, "Trends in Employment and Earnings of Allowed and Rejected Applicants to the Social Security Disability Insurance Program," *American Economic Review*, vol. 101, no. 7 (December 2011), pp. 3308–3329, www.aeaweb.org/articles.php?doi=10.1257/aer.101.7.3308.
 41. Nicole Maestas, Kathleen J. Mullen, and Alexander Strand, *Does Disability Insurance Receipt Discourage Work?* RAND Working Paper WR-853-2 (RAND, March 2011), www.rand.org/pubs/working_papers/WR853-2.html. Also see Eric French and Jae Song, *The Effect of Disability Insurance Receipt on Labor Supply*, Federal Reserve Bank of Chicago Working Paper 2009-05 (revised July 1, 2011), www.chicagofed.org/webpages/publications/working_papers/2009/wp_05.cfm.
 42. See, for example, "Assistive Technology, Accommodations, and the Americans with Disability Act" (Cornell University, (December 2000), www.ilr.cornell.edu/extension/files/download/Assistive_Tech.pdf).

- Grants to support counselors for working beneficiaries,
- Upgrades to help SSA speed up the processing of information about earnings and the results from continuing disability reviews,
- Expedited reinstatement of disabled workers whose benefits were terminated because they returned to work but then became unable to work and returned to the DI rolls,
- Eased procedures for states to establish income and asset standards for working people with disabilities and thus share Medicaid costs through premiums or other cost-sharing arrangements, and
- Extended Medicare coverage—from about three years under the previous rules to nearly eight years under the 1999 legislation—for beneficiaries who returned to work.

Although those provisions reduce some of the potential hurdles to DI beneficiaries' participation in the labor market, the employment rates of DI recipients have not been measurably affected.⁴³ As of April 2012, 13.2 million DI and SSI beneficiaries were eligible for employment services through the Ticket to Work program, but only about 290,000 beneficiaries (or about 2 percent) were receiving them. About 1,000 firms have signed up to be "employment networks" to provide services to beneficiaries, and about 900 have successfully placed DI beneficiaries in jobs.⁴⁴

43. Government Accountability Office, *Employment for People with Disabilities: Little Is Known About the Effectiveness of Fragmented and Overlapping Programs*, GAO-12-677 (June 2012), www.gao.gov/assets/600/592074.pdf, and *Social Security Disability: Ticket to Work Participation Has Increased, but Additional Oversight Needed*, GAO 11-324 (May 2011), www.gao.gov/products/GAO-11-324; and Craig Thornton and others, *Evaluation of the Ticket to Work Program: Assessment of Post-Rollout Implementation and Early Impacts* (Mathematica Policy Research and Cornell University, May 2007).

44. For additional information on the Ticket to Work program and the employment networks, see Social Security Administration, "Ticket to Work," www.ssa.gov/disabilityresearch/offsetnational.htm; and David Stapleton and others, *Ticket to Work at the Crossroads: A Solid Foundation with an Uncertain Future* (Mathematica Policy Research and Cornell University, September 2008).

The original Ticket to Work legislation asked SSA to implement and evaluate a demonstration project that would modify reductions in DI benefits for beneficiaries who work. SSA is currently evaluating the effects of such a program in which annual benefits are reduced by \$1 for every \$2 in earnings that exceed the SGA amount.⁴⁵ However, it is too early to determine whether those modifications will succeed in encouraging more DI beneficiaries to leave the program's rolls and return to the labor market.

A growing number of studies suggest that the critical obstacle to DI beneficiaries' return to the labor market is the substantial amount of time they have often spent away from employment, through a combination of looking for work, completing the DI program's waiting period, and receiving DI benefits. Specifically, because DI applicants must demonstrate that they are unable to undertake any substantial gainful employment, workers who seek support must generally leave any jobs they might be holding. Once an application is filed, the determination process is quite lengthy.⁴⁶ During the time a DI application is being reviewed, the applicant receives no income support or medical benefits from the program, and the law requires no additional accommodations for his or her disability in the workplace. Moreover, the program's limits on earnings discourage applicants from

45. As under the DI program's usual rules, beneficiaries in the trial program are allowed to earn any amount for as long as 12 months (a trial work period of 9 months plus a grace period of 3 months) and keep all of their benefits. But also under those rules, beneficiaries lose 100 percent of their benefits after 12 months if they earn the SGA or more, whereas in the trial program, many beneficiaries can keep a substantial share of their benefits. See Social Security Administration, "Benefit Offset National Demonstration" (July 2012), www.ssa.gov/disabilityresearch/offsetnational.htm.

46. The average DI applicant who appeals an initially denied application to an administrative law judge will wait about 12 months for the case to be decided, although that is significantly faster than the time required for such judgments a few years ago. See Congressional Budget Office, "DI: The Social Security Disability Insurance Program" (infographic); Social Security Administration, *The Social Security Administration's (SSA) Performance and Accountability Report (PAR) for Fiscal Year (FY) 2011* (February 2012), www.socialsecurity.gov/finance; and David Autor and others, *Does Delay Cause Decay? The Effect of Administrative Decision Time on the Labor Force Participation and Earnings of Disability Applicants*, University of Michigan Retirement Research Center Working Paper 2011-258 (September 2011), www.mrrc.isr.umich.edu/publications/papers/pdf/wp258.pdf.

continuing to work even on a trial basis because doing so could jeopardize their DI application. Research has shown that returning to work is difficult for rejected DI applicants, and the time they spend out of the workforce (perhaps as much as two years while they seek benefits) generally makes it harder. For people who are eventually awarded DI benefits, concerns about maintaining that support and finding employment after a long absence from the workforce may keep many from reentering the labor market.⁴⁷

Strategies for Reducing the Number of People Who Leave the Workforce and Become DI Beneficiaries

The limited success of programs designed to increase the rate at which DI beneficiaries and applicants return to work has spurred proposals aimed at supporting employment for people with disabilities before they quit their job to begin the application process. Ideally, such proposals can enable people with disabilities to remain in the workforce and can thereby slow the movement of such people onto the DI rolls. In the face of fiscal challenges that are similar to those confronting the United States, several other nations have implemented some of those types of changes.

Moving to a Partial Disability System. One way to encourage workers with disabilities to participate in the labor market is to move to a partial disability system of the kind used by the Department of Veterans Affairs and by many workers' compensation systems. Partial disability systems generally use a predetermined schedule to calculate a "percent disabled" rating for each individual; those percentages then determine the amount of the payments a person will receive. Such a system avoids the either/or threshold currently employed in the DI program in which employment and disability are considered incompatible. A partial disability system explicitly recognizes that workers with a disability that restricts their activity by, say, 30 percent or 50 percent have some remaining capacity to work.

If the DI program shifted to such a system, the number of people in the program would probably increase because the system would encourage people with less-severe disabilities to apply and qualify for benefits. Because current beneficiaries would not face reduced

benefits and newly qualified individuals who are partially disabled would also receive benefits, outlays would rise in the short run. However, the net budgetary effects in the long run are difficult to estimate because they would depend critically on the definitions used to assess partial disability, on the amount of benefits provided for those who were so identified, and on the responses of workers and firms.

In practice, partial disability systems have been difficult to design and carry out consistently. Problems of implementation include, first, how to agree on a predetermined schedule of disabling conditions when the demands of a job and the severity of health impairments may change over time and, second, how to use the schedule to assess different individuals in a comparable way.⁴⁸ The difficulty of managing partial disability systems combined with rising costs—stemming from increased administrative expenditures and lost earnings among those with partial disabilities—has led several European nations (for example, the Netherlands, Norway, and Switzerland) to move away from partial disability insurance and toward approaches that directly involve employers in helping individuals with disabilities remain in the labor market.⁴⁹

Involving Employers in Supporting Workers with Disabilities

Employers are not allowed to discriminate against people with disabilities and are required by law to make reasonable accommodations for them in the workplace. In most cases, employers have some financial incentive (such as the costs of replacement workers, retraining, and workers' compensation) to actively participate in keeping workers with disabilities on the job. However, because the DI program is funded through a flat-rate payroll tax on employers and employees, employers do not bear the costs associated with a disabled worker

48. The Institute of Medicine's Committee on Medical Evaluation of Veterans for Disability Compensation highlighted some of those challenges in a review of the Department of Veterans Affairs' disability system. See Michael McGeary and others, eds., *A 21st Century System for Evaluating Veterans for Disability Benefits* (National Academies Press, 2007), www.iom.edu/Reports/2007/A-21st-Century-System-for-Evaluating-Veterans-for-Disability-Benefits.aspx.

49. See Organisation for Economic Co-operation and Development, *New Ways Of Addressing Partial Work Capacity: OECD Thematic Review on Sickness, Disability, and Work Issues Paper and Progress Report* (OECD, April 2007), www.oecd.org/dataoecd/6/6/38509814.pdf.

47. Maestas, Mullen, and Strand, *Does Disability Insurance Receipt Discourage Work?*

who stops working and becomes a beneficiary in the DI program.

In recent years, the policies of a number of European countries have changed to transfer more of the cost of providing disability benefits to employers. One way that has been done is by making employers responsible for paying benefits for a fixed amount of time. Those periods vary from as much as two years in the Netherlands to just six months in the United Kingdom, but like workers' compensation in the United States, the programs are meant to encourage employers to accommodate workers with disabilities and provide rehabilitation services in lieu of moving such workers to a system of long-term cash benefits.⁵⁰ Among the countries that have adopted the employer-involvement model, strategies are being developed to assist employers in managing their workers with disabilities.⁵¹ One challenge with such an approach is determining the time horizon over which a firm is responsible for an ex-employee who enters the DI program.

Lawmakers in the United States could consider similar changes. Firms could be required to provide the first, say, two years of disability insurance, in which firms covered some portion of a worker's earnings before he or she was awarded DI benefits. Private-market provision of such short-term disability insurance—similar to arrangements in some European nations—might develop in that environment.⁵² As an alternative to requiring firms to provide insurance, employers who did so, and whose private

insurance agents cooperated with SSA in managing their cases, could be granted a reduction in DI tax rates. Firms that did not offer private insurance could be charged a higher DI tax rate, an approach that Switzerland has adopted.⁵³

Another way in which European nations have encouraged employers to accommodate workers with disabilities rather than move them to cash benefit programs is by applying “experience rating” to the contributions employers make for disability benefits. In the context of the DI program, experience rating would mean raising the DI payroll taxes of firms whose workers became beneficiaries of the DI program at above-average rates or lowering the payroll taxes of firms whose workers claimed benefits at below-average rates. Experience rating provides a financial incentive for employers to engage in practices that promote continued work by people with disabilities.⁵⁴ The Netherlands and Finland use such a strategy, as do workers' compensation programs and the unemployment insurance program in the United States.⁵⁵

One criticism of experience rating is that it could push employers away from hiring people with disabilities, potentially increasing growth in the number of beneficiaries in the DI program. That type of behavior is illegal and would come with significant costs if it was discovered. Uncovering and prosecuting such behavior, however, might be difficult.

50. For a discussion of the differences between the programs of other countries, see Organisation for Economic Co-operation and Development, *Sickness, Disability, and Work: Breaking the Barriers; A Synthesis of Findings Across OECD Countries*, (OECD, November 2010), <http://dx.doi.org/10.1787/9789264088856-en>.

51. See also the various OECD publications that make up the OECD series *Sickness, Disability, and Work* at www.oecd.org/els/disability.

52. For details of such a proposal, see Autor and Duggan, *Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System*.

53. Ibid. For further discussion, see Burkhauser and Daly, *The Declining Work and Welfare of People with Disabilities*.

54. Ibid.

55. Organisation for Economic Co-operation and Development, *Sickness, Disability, and Work: Breaking the Barriers*.

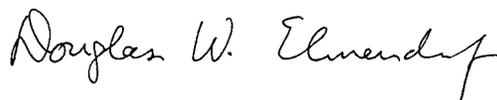
About This Document

This Congressional Budget Office study was prepared at the request of the Ranking Member of the Senate Budget Committee. In keeping with CBO's mandate to provide objective, impartial analysis, the report contains no recommendations.

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