

## ***The Issue Unresolved: Innovating and Adapting Disability Programs for the Third Era of Social Security***

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The history of the Social Security programs in the United States falls into several distinct eras, defined by changing social, demographic, and economic conditions. At present the retirement component of these programs is moving into a stage of program maturation, which poses certain relatively well-understood changes to policymakers. The disability programs are also moving into the same set of societal conditions, but their impact is considerably more difficult to predict. Already disability incidence rates have experienced disturbingly large and poorly understood shifts. Developing a way to predict these shifts and to deal with the challenges that they make for existing programs is therefore a major priority of Social Security's current research agenda.

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The growth of the programs collectively called "Social Security" in the United States has been one of the major accomplishments of 20th-century public policy. From a limited program covering only wage and salary workers in commerce and industry, making payments to 220,000 persons in its first year of operation, Social Security has become a set of programs covering 133 million workers and paying benefits to about 42 million former workers and their dependents—including more than 360,000 outside the United States.

Today's programs represent three great achievements. First, the 1935 vision of a system that would protect workers and their families from the economic impact of old age, death, disability, and poor health has been realized. Second, through the development of the tax system, ways have been found to bring in the self-employed, farm workers, and domestic workers so that the vast majority of current workers now participate in their own social insurance. Third, the challenges of implementing ways to define and measure disability have been met in a program that extended new benefits to workers, which totaled more than 600,000 disabled workers in 1993. Moreover, the programs now paid out of the Social Security trust funds are closely linked with others that provide virtually universal health care to the elderly and means-tested income support to both the elderly and disabled.

Reflecting the characteristic political culture of the United States, these programs are structured so that benefits are perceived as an earned right. To this end, they are, by and large, (1) a mandatory form of contributory insurance for nearly the entire labor force, (2) funded almost entirely by employer and employee contributions placed in trust funds that use surplus funds to hold government securities, and (3) paying old-age, survivor, and disability benefits calculated on the basis of past earnings histories. This has won them the widespread support among the U.S. population, which is essential to the long-term functioning of the program. A system that collects payments during a worker's entire working career and pays them out through subsequent years of life (and to survivors) must be planned in terms of generations rather than months or

years. A broad social consensus that insures the necessary degree of stability has indeed been achieved. About 3 in 4 Americans report being favorably impressed with Social Security, and, on the occasion of its 50th anniversary, a resounding 92 percent judged the program a success.

This high level of approval applies to the largest components of the system, which pay benefits to retired workers and their dependents and survivors. The status of the disability programs is more ambiguous. There are two of these programs, of roughly comparable size, using the same definition of disability, and administered by the same field offices and State disability determination agencies. The Disability Insurance (DI) program is available to workers with "currently insured" status, essentially a test of recent and substantial participation in the labor force. Benefit amounts are calculated in the same way as retirement benefits, on the basis of past covered earnings. Its means-tested counterpart (disability payments under SSI) is available to almost everyone (regardless of past earnings) who meet the disability definition and has only limited income and assets. Unlike DI, it is a "safety net" program for persons who have not earned coverage by the Social Security system, or qualify only for minimal benefits. It is paid for out of general revenues rather than a trust fund and the amount of benefits that it provides has nothing to do with prior earnings.

Although some form of protection against earnings loss due to impairment had been envisioned from the earliest days of the program, DI was put into place relatively late—the first benefits were paid in 1957, and they were initially available only to workers aged 50-64. Disability payments under SSI, which began in 1974, was the last major program addition in the history of Social Security. This lag in program development cannot be explained by lack of resources.

During the middle third of this century, social and economic conditions were rather different than they are today and more conducive to program expansion. This was an "Age of Invention," during

which it was realistic to design and implement new social programs on a major scale. Generally speaking, for the better part of this period, fertility rates were high (though the reverse was true in the earliest years), marriages stable, productivity and real wages growing, death rates high and unchanging, immigration low, the public trusting, and men and women living out very different social roles.

Moreover, even during the economically depressed very early years of Social Security, the system was inherently in a position to grow rapidly. At some points, the programs' designers had to rest their plans on assumptions about how the world would change in ways that affect the number of persons earning benefits and the amounts that they would be entitled to—for example, it was assumed that the Depression of the 1930's would be followed by an era of renewed growth. However, it was a certainty, not merely an assumption, that in the start-up phase many workers would be paying in relative to the number who had earned benefits, and funding would not be a problem until the program began to mature.

Though planners wanted to create a disability program and could reasonably assume that they had the resources to fund one, it was difficult to reach a consensus on what the terms of eligibility might be. Too restrictive a definition would leave too many impaired workers without any substitute for lost earnings, while too generous a definition would be costly and constitute a "morally hazardous" incentive to leave the labor force. Also, the range of disabling impairments is very large and reflects very different underlying causes. To treat applicants equitably, it was necessary to evaluate, for example, persons with missing limbs in what would be somehow the "same" way as persons with endocrine disorders.

In other aspects of the program, fewer decisions had to be made, and DI could be based on the existing old-age and survivors programs. The program benefit structure, for example, is taken directly from that used to pay retired workers. Some adjustment has been made to shorten the number of countable

years for younger workers to reflect their necessarily shorter careers. However, the method used to calculate earnings replacement amounts is based entirely on past earnings and does not take into account the likelihood, in many cases, that earnings rise during the working career. Depending on age, some disabled workers will have an effectively lower replacement rate than the oldest disabled worker and the retired.

The eligibility standard that was arrived at by 1965, quite early in the program—a condition or combination of conditions lasting 5 months, which can be expected to last at least 12 months or result in death, sufficiently severe to prevent work at any job in the national economy—has formally remained the same, though modified at the margins by administrative clarifications and judicial decisions. Applying it, however, has never become entirely routine. The disability programs involve a relatively small proportion of the total applications for Social Security benefits and subsequent awards (roughly 15 percent of total awards in recent years), but they involve far more administrative work and generate almost all of the appeal decisions to which Social Security must respond.

The need for retirement and survivor benefits was widely accepted from the start, and their eligibility criteria are simple and generate few disputes (generally, these involve proof of age, whether marriages were valid, or legal parentage). There is far less of a consensus as to the level of impairment that should or should not qualify someone for benefits, and the fairness of decisions in specific cases is often ambiguous. As a result, the disability programs in which judgmental decisions are the norm rather than the exception, have continued to receive considerable criticism and recurring attention from policymakers. The fact that many of these issues have never been conclusively resolved is partly a matter of timing. As relative late-comers to Social Security, the disability programs have not evolved in the relatively benign climate of Social Security's earlier "Innovation" era.

The socioeconomic climate in the last third of our century has been consider-

ably more restrictive, and policymaking has become considerably more reactive. In place of "Innovation," we might speak of a second era, the "Age of Accommodation." In effect, program expansion had reached the limits that the economy could support. On the supply side, coverage had been expanded until it was nearly universal, precluding any further "windfall" benefits from bringing in large numbers of covered, tax-paying workers who were far from being eligible for benefits. On the demand side, an across-the-board 20 percent increase in benefit levels and their subsequent indexing to changes in the Consumer Price Index used up most of the available funds. Under these circumstances, bold new programs and expansions of the system have increasingly been put aside or rejected. Payroll tax rates (on an increased wage base) have been raised along with the future retirement age, and most of the extensions of coverage and benefits that have taken place affect limited and specially targeted groups.

This shift to a less ambitious mode of policymaking reflects a series of sometimes-unwelcome accommodations to a wide-ranging series of changes, many of which would have surprised most forecasters in, say, the 1950's. For example, real wages and productivity have generally stagnated; the labor-force participation of older men has fallen, as have birth rates; marriages have become less stable; life expectancy has shown far greater increases than had been anticipated; and public confidence in the system has been waning. The general trend has been toward increases in anticipated costs and decreases in anticipated revenues. This has not paralyzed the political process by any means—when the system was recognized to be clearly underfunded, a bipartisan coalition agreed to a package including unpopular tax increases and gradual increases in the retirement age. These 1983 Amendments to the Social Security Act are a notable display of nonpartisan willingness to make hard decisions when necessary, but the environment in which these decisions must be reached has certainly rendered them harder to make.

Moreover, even under a relatively constant definition of disability, the programs have proven to be quite difficult to plan for. Despite eligibility criteria that have not changed substantially over the years, awards under both disability programs have displayed a series of comparatively drastic increases and decreases for which no generally accepted explanation is available. It would appear that no single factor is a sufficient cause of program growth. Rather, a number of factors working in concert—such as, changes in unemployment, the mix of available jobs, the average age of the population, and administrative practices—have acted to cause different patterns of change at different times. After an initial period of moderate growth, DI grew very rapidly through the mid-1970's, declined sharply into the early 1980's, then underwent a number of years of comparative stability. Beginning in 1990, the number of applications and awards has begun another wave of growth. Though it has not yet reached the levels experienced in the mid-1970's in terms of incidence rates, the growth of the covered population means that in raw numbers and in program outlays, awards and benefits have already reached record levels. These trends have generally been paralleled by the experience of the Supplemental Security Income program, which provides means-tested benefits to the disabled.

The growth during the 1990's has been particularly notable among younger persons and among persons with mental problems—a disturbing trend because these characteristics are associated with longer stays on the rolls, implying a greater long-term cost to the programs. Also notable are increases in awards that take into account vocational factors, decisions that are likely to involve a fair degree of subjectivity. Two groups, substance abusers (for example, drug addicts and alcoholics) and aliens, are still represented in only a small proportion of awards but have shown particularly rapid growth; both have been a target of considerable public criticism.

This trend, which has persisted for several years, raises serious difficulties in both the short and the long term. The

upsurge in applications has already overwhelmed the Social Security Administration's (SSA's) workforce, and in the present climate it is not possible to add substantial administrative resources. As a consequence, a large number of applications are not being acted on in a timely manner. This leads to unconscionable delays in awarding benefits to workers who qualify (and who, in addition to their medical problems, may have no other sources of income while they wait). It may also cause the problem to feed on itself. It requires far less work to award than to deny a benefit, and overworked claims examiners may increasingly tend, consciously or unconsciously, to increase the proportion of marginal cases that they approve for benefits—not only increasing the program rolls, but subtly encouraging more applications from other marginal cases.

Perhaps it is worth reviewing at greater length some of the explanations that have been offered for these developments (all of which probably do explain *some* of the variation, but none of which appears to explain a sizable proportion of the observed variation):

- *Economic Incentives.* Workers with some degree of impairment are faced with a tradeoff between continuing work to gain earnings and not working and receiving Social Security benefits. Because they must not have worked 5 months before benefits can begin (and because, in practice, the interval between application and award can be much greater), workers with any but the least desirable and lowest-paying jobs are taking a considerable risk if they stop working, given the certainty of foregone earnings and the uncertainty as to whether offsetting benefits will be granted. Obviously, this constraint is less severe when a worker is currently unemployed and unable to find further work. It is therefore plausible that applications would increase during downturns in the business cycle, and that they would reflect the long-term trend toward the disappearance of less-skilled jobs, particularly in manufac-

turing. However, on close examination these factors do not seem to correlate well with changes in the disability programs, and it has been claimed that unemployment rates are not, after all, a major determinant.

- *Age Composition of the Labor Force.* As health tends to deteriorate with age, disability rates are much higher in the older age ranks of the labor force. Given that the large baby boom cohort has been moving steadily into more and more disability-prone ages, one would expect disability to have decreased as that generation entered the labor force and to increase now that they are aging. Clearly this factor has some impact on program growth, but it is not a major component. Moreover, changes in age composition fit well with neither the timing nor the magnitude of the observed changes in the disability programs.

- *Underlying Health of the Population.* Other things being equal, improvements and deterioration of the health of the insured population should be reflected in increased or decreased disability rates. In terms of life expectancy, the overall health of the population has been increasing quite steadily since the early days of the disability program. However, it is not clear that changes in mortality correspond to changes in morbidity, the determinant of disability. The observed increased years of life may constitute more years of impaired living, increasing average disability levels. The available data on impairment in the general population are not very satisfactory, but they do suggest an increase in impairments during the 1970's, a period of notable disability program growth, and considerable stability during the following decade, again paralleling program experience. In the absence of detailed measures and a better understanding of the determinants of morbidity, however, these findings are of little use in forecasting program growth. It is at

least plausible that a growing concern with self-health factors such as diet and exercise (and a notable decrease in smoking in most groups) will eventually be reflected in improved general health, as will innovations in medical treatment. Alternatively, some of these "improvements" may merely have the effect of keeping sick people alive longer.

- *Adjudicative Climate.* While the basic definition of disability used to establish eligibility has not changed to any great extent, a number of changes in law and regulation have continued to make modifications at the margin. In addition, judicial rulings have sometimes had perceptible effects—by far the most notable was the relatively recent of *Sullivan v. Zebley* case, which greatly liberalized the treatment of child applicants for SSI payments. In addition, it is widely believed among persons involved with the disability programs that relatively arcane changes in operating rules and their interpretation by employees in the field who actually process applications have a major impact on the award rate and, indirectly, on the rate of applications. In a few cases, such as *Zebley*, the impact of these changes is fairly clear, but, for the most part, the net effect of overt and covert changes is very difficult to assess, as much of it can be measured only anecdotally. However, the administration of the initial disability determinations is conducted by employees of the States and equivalent jurisdictions; the Social Security Administration is directly involved in decisions only in the case of appeals. As Federal disability benefits generally replace benefits from programs funded by the States, these governments have an obvious interest in moving many of their beneficiaries into the Federal programs, especially in times when many of them are experiencing budgetary stress. It is therefore suggestive that the State-to-State disparity in award rates and

the changes in these rates is quite substantial; moreover, while the average award rate is about 40 percent at the initial level, denials are far more likely to be overturned at the Administrative Law Judge level. This suggests that difficult-to-quantify variation in administrative staffing and conduct do indeed have a considerable impact. Unfortunately, factors of this sort, while perhaps the most important underlying cause of program growth, are also the most elusive.

While reasonably reliable actuarial estimates of the medium- and long-term costs and caseloads of other Social Security programs have long been available, it has proven impossible to project the future of the disability programs with anything approaching this level of confidence. The 1983 amendments, which included such unpopular measures as gradually raising the retirement age, were nonetheless enacted with a wide margin of support because reasonably reliable actuarial estimates showed conclusively that such changes were needed to ensure the long-term survival of the system. Ironically, disability is perhaps the one element of Social Security for which there is broadest agreement on the need (though not the form) of major changes. Yet, amid all this ambiguity, it is very difficult to arrive at a consensus on the need for any specific change or the impact it might have.

It is the nature of the future to constantly surprise us, and we should speak cautiously about a coming "third age" of Social Security. Still, some fundamental trends have continued to work themselves out in ways that will have a major and predictable impact. The future of the main components of the Social Security system continues to be driven by the almost inescapable maturing of the various programs, to such an extent that we should speak of the coming decades as the "Age of Maturation."

The startup phase of any social insurance scheme that relates benefits to past participation (in the case of the United States, on having "covered earnings") will take the form in its early years of a

large number of current, contributing workers relative to the number of former workers who have already earned benefits. Over the years this dependency ratio will of course shift, but the process is a matter less of years than of generations. Only now are we approaching the time in which most persons entering old age have spent their entire working careers covered by Social Security. Even if the conditions of the 1950's and 1960's had otherwise persisted unaltered, we would still be facing the challenge of moving to a system in which the dependency ratio had settled down to a roughly stable balance for the long term.

To say that the system will become "mature" is not to say that it will be stable. The future of Social Security during the next several decades will be driven by a number of demographic, social, and economic factors. A review of them suggests significant uncertainty about the future of the system and at least the possibility that major changes will eventually be called for.

*Fertility.*—The historically low birth rates during the 1930's and the first half of the 1940's were followed by very high levels over the years 1946-65, peaking in 1957, followed by a swift decline to unprecedented low levels by the mid-1970's, and a modest rebound since. The result has been a "Baby boom" cohort that is markedly larger than its older and younger counterparts.

The disproportionate size of the cohort entering the labor force for the past 20 years has had the effect of holding down the ratio of elderly collecting benefits relative to the workers whose payments support them. The situation will begin to reverse around 2010 when the "boomer" cohort begins to reach retirement age. As Social Security is largely a system for transferring funds from present workers to former workers (and their families), this will place the system under growing stress. The overall social impact of this will be somewhat mitigated by the smaller number of dependent children who must be supported but on a *per capita* basis the elderly are more expensive.

*The family.*—The changing dynamics of family formation, growth, and dissolu-

tion since mid-century, have transformed what was once a rather monolithic norm into a growing diversity of family and household structures. A decreasing propensity toward early marriage (or any marriage at all), an increasing propensity toward divorce, delays in childbearing, and a markedly increased proportion of children born outside of marriage has led to a substantial decrease in "conventional" nuclear families consisting of husband, wife, and children. Most of the alternative types of family, which are more and more frequently encountered (notably, female-headed households with children), are characterized by lower earnings than traditional families, which pose challenges for a system built around earnings replacement.

*Life expectancy.*—The long-term decline in mortality associated with the conquest of most forms of infectious disease and infant mortality had largely played itself out in the earliest years of the Social Security program. Unexpectedly, mortality declines resumed on a considerable scale during the 1960's and appear to have continued to this day. Furthermore, they took a form that had a disproportionate effect on the Social Security programs. Reductions in age-specific mortality are now due, in large part, to decreasing (or deferred) mortality from chronic conditions for which benefits are payable.

Because there is no generally accepted model describing the progression of mortality, let alone the biological limits (if any) of human longevity, it is currently very difficult to assess whether these trends will persist, how much they might increase, and how much of any increases in lifespan will be spent in comparative health rather than disability and dependency. Some researchers, projecting past trends in mortality and patterns observed in certain subgroups with what are believed to be exceptionally healthy lifestyles, have suggested that increases in the next several decades might be considerably greater than those currently forecast by the Census Bureau and the Social Security actuaries. On the other hand, these theories have been called into question by other researchers whose particular concern is cause-specific

mortality or underlying models of senescence. It is safe to say that the issue is far from resolved.

*Immigration.*—The United States has generally prided itself on being "a nation of immigrants," but this temporarily became less true during the 1925-65 period, due to the institution of a country-of-origin quota system. In the context of very high mid-century domestic birth rates, it was demographically of marginal importance. The next three decades after immigration reform saw a major shift that in the long-term perspective was a return to normal. Immigrants, who numbered about 3 million during the 1960's, may reach a record high of 10 million in the 1990's. Already, during the 1980's, the proportion of the workforce that was foreign born rose from 6.9 percent to 9.3 percent, and immigrants accounted for more than a quarter of new-labor market entrants.

The net impact of these trends on the Social Security system is somewhat uncertain. Current policy has favored family reunification, largely ignoring the potential of using new entrants as a way of altering and fine-tuning the domestic labor force and the age structure of the future resident population. In recent years, interest has been expressed in basing a larger share of new admissions on the latter approach.

*The changing role of women.*—Despite the fact that benefits for specific groups of elderly women who are under economic pressure have received considerable legislative attention over the years, problems remain. Overall, 23 percent of unmarried aged women still have incomes below the poverty line and another 12 percent are in what is considered "near-poverty;" some segments, such as the divorced and those who are especially elderly, are still worse off. In part, this reflects the fact that older women had much less substantial working careers than their male counterparts. Earnings replacement cannot ensure income security for persons and groups whose earnings have not been sufficient in any case.

This situation may be improving. An increase in the average age at marriage and in the probability of divorce means

that the number of years people live together as married couples is declining; the trend toward low and late fertility has considerably reduced the proportion of women's lives that is spent primarily on child care; and the majority of women now have substantial working careers by the time they reach retirement age. Some 60 percent of women reaching retirement age now have earned the 40 quarters of earnings in covered employment that entitle them to benefits in their own right. In practice, however, the comparative distribution of men's and women's lifetime earnings means that the majority of women continue to receive benefits based on the earnings of present or past husbands. Thus, only a minority will see an increase in benefits as a result of the trends noted above.

*Public confidence.*—Social Security was founded and expanded during a period in which the public was becoming increasingly accepting and supportive of government-sponsored social welfare programs that would actively support the well-being of its citizens. During the past quarter-century, however, the public has become increasingly estranged from and skeptical of its institutions and its leadership. Despite the high approval of the performance of Social Security up to the present, there is far less of a consensus on its future. In the current climate, there are widespread—though not, for the most part, well-founded—concerns that Social Security will not be there for future generations. By 1991, 61 percent of those not yet receiving benefits expressed little confidence that it would have the money to pay them by the time they retire.

The older population now relies heavily on Social Security, but younger generations—who are paying for these present-day benefits out of their current earnings—are showing increasing worries about whether the implicit bargain will be kept when they are aged. Moreover, this concern is greatest among the younger, better-educated, and higher-earning adults, a group of voters that can be expected to wield particular political influence in years to come. If their support for the system erodes, the consequences may be serious.

*Service delivery.*—Another social development, which has perhaps drawn less attention than it deserves in policy debates, is the changing public expectations as to what a reasonable level of service and accommodations might be. The private sector has made great strides in increasing the speed and convenience in ordering and delivering the goods and services that it sells. The level of service that is now taken for granted, or at least is expected, means that old ways of doing business that were considered sufficient or appropriate in past years are no longer acceptable. In strictly economic terms of benefits eventually paid out, the details of service delivery may not have any great impact on the public, but they can have a major impact in terms of maintaining public support and ensuring that the system will continue to receive adequate funding. Advances in telecommunications and desktop processing have given us, potentially, the capacity to greatly increase our level of service, even in an environment of limited administrative resources—with toll-free numbers that are promptly answered, record systems that are accurate and can be promptly updated, direct checkless deposit of funds, Social Security numbers issued as part of the routine paperwork at birth, and a “paperless” system that can move at the speed of light rather than the speed of a handcart.

*Trust fund buildup.*—A series of measures including increased payroll taxes has caused the trust funds to grow substantially during the past decade; the aggregate trust funds are currently projected to maintain a positive balance until the next century. At present, however, the surplus cash flow is invested in Treasury obligations, which has the effect of shifting the debate over funding into the future. When cash flow turns negative, it will be necessary either to replenish the funds by increasing payroll taxes or to draw them down. This would require increasing the rates of existing taxes or instituting new forms of taxation so that Social Security continues to pay those who are entitled to benefits. If economic growth should rise to the levels seen earlier in the century, then this may prove to be a relatively

easy matter to resolve, but we can hardly be sure that the future will turn out so neatly.

*Earnings.*—The number of jobs (and the wages that they pay) for less-skilled workers appears to be dropping, raising the prospect that the groups that have always been most economically marginal will find their situation becoming even worse in absolute as well as relative terms. The shift toward jobs requiring more skills has not been matched by an increase in a more skilled labor force overall; it is disturbing that today's younger workers appear to be the first generation in our nation's history that may be less well educated than their parents. In addition to making it more painful for workers to pay retiring generations their benefits in coming years, this pattern of stagnation could lower the average level of benefits that will be received.

*Assets.*—Savings from past earnings and investments have been expected to play a major role in income replacement at both the personal and macroeconomic level. A high level of savings obviously replaces earnings, and on a larger scale a high personal savings rate reduces the cost of capital, encourages investment, and leads to long-term economic growth that makes it easier to fund old-age and disability benefits. Unfortunately, the trend here is not at all encouraging. The decline in wage growth has been accompanied by a decline in the national savings rate to very low levels. There is some dispute about whether or not the large baby boom cohort has higher or lower assets than its parents did at a comparable stage in the life-cycle (depending on how non-financial forms of assets such as home equity are counted) but current levels do not suggest a comfortable retirement for the majority.

*Pensions.*—The number of current workers who are covered by pensions and have vested rights to some future return has grown considerably, especially among women. However, growth has come from a relatively low base, so that even now only about half of all workers are covered on their current jobs. Moreover, coverage increases have recently slowed and even reversed among some

groups, notably younger men. In addition, the type of income replacement protection has changed considerably, particularly in a shift to defined-contribution plans and individual tax-deferred accounts. If the future yields strong economic growth, the net effect may benefit workers, but these plans do shift risk from employers to employees and hold the prospect of decreased protection in many individual cases.

### ***Disability: The Changing Context***

While the outlines of the future of most programs under Social Security can be seen at least dimly, the fate of the disability programs is somewhat obscure. Now that coverage of earnings has become near-universal, we can make estimates of the covered population with some confidence based on estimates of labor force participation. But what proportion of the "currently insured" will apply for and be awarded benefits? How long will they remain on the rolls? How secure is the system's financing? Though modeled on other types of social insurance, it is not clear that both disability programs (DI and SSI) will have matured during at least the first part of the coming "Age of Maturation." However, we can foresee, and at least speculate about, several activities and major changes to which the program will react. These are the focus of the remainder of this article.

As this review has demonstrated, the maturation of the Social Security system will leave it facing many demands in an environment of limited resources. But the implications of many of the trends discussed are more clearly interpretable for old-age benefits. What do the conditions of the next century mean for the disability programs? At present, we do not have adequate answers to these questions, but we are undertaking a program of expanded research to improve our understanding of the dynamics of the program. These can be seen as four sequential steps:

- the number and characteristics of persons with impairments at specific degrees of severity;

- the number and characteristics of persons who apply for benefits on the basis of their impairments;
- the factors leading to a subset of these applicants being awarded benefits; and
- the number of persons who leave the rolls through death, termination, or conversion to retired status.

Our understanding of the first step is particularly incomplete. Information about the distribution of health problems and impairments in the population at large is based primarily on self-reports in personal interviews. The National Health Interview Survey (NHIS) has been fielded continuously since 1956 and is the best source of health trend data, but the answers to its questions provide too limited a base to make any reliable estimates of how many persons would qualify for disability benefits using SSA's standard (or, for that matter, any modified standard that we might wish to implement). This is not to fault the NHIS—self-reporting of any kind is inexact and not very reliable. It is in part for this reason that SSA conducted the last of its own surveys of disability as long ago as 1978.

What is required to address these questions is to combine self-reports with professionally conducted clinical and medical assessments. This technique was pioneered by the Framingham Heart Study, which began in 1948 (and continues to this day), but on a national scale only the National Health and Nutrition Examination Study has provided us with reliable data. Given its limited sample size and its focus on factors other than those crucial for disability determinations, however, the data from this study are unfortunately only of very limited use for the purpose at hand.

We are, therefore, in the process of designing a Medical Examination Study (MES), to be conducted around the end of 1995. This study of the national population will collect self-reported and examination data, oversampling the more impaired subset of the population of working age. The MES is intended to provide (1) a precise estimate of persons

who meet the current program definition of disability; (2) a measure of persons with impairments of somewhat lesser severity—the group most at risk of becoming disabled in the near future; (3) a means of estimating the cost and distributional impact of implementing alternative definitions of disability under consideration; (4) a guide to the characteristics of persons who meet the disability standard and yet manage to continue working, and the factors that permit them to do so; and (5) an accurate measure of the reliability of self-reports on relevant characteristics, as a means of making more thorough and reliable use of relatively inexpensive survey data in years to come.

The second step in the process of obtaining benefits application, is also poorly understood and urgently requires research. It is generally believed that a considerable number of eligible persons do apply for benefits, or do not apply until some time after their disability becomes severe (the MES will give us a clearer understanding of this group). On the other hand, a large number of persons who *do* apply are found on careful examination not to meet the program standard. Further, it appears that applications are often influenced and sometimes assisted by third parties, such as insurers and advocacy groups, whose activities may play an important part in program growth. A number of steps have been taken to get at these issues—notably, two 2-day studies of all applicants for DI who enter SSA's offices and a highly successful survey of anecdotal assessments of the situation from managers in the field offices—but much more is needed. We are, therefore, currently in the process of developing a targeted study of applicants and eligible non-applicants intended to enable us to anticipate changes in application rates and to improve our outreach activities to reach those who are eligible.

In a less data oriented approach, SSA has drawn in outside experts and stakeholders, along with its own experienced workforce, to reengineer the entire disability determination process that results in the award of benefits. In part, this is intended to cope with the rise in applica-



tions without a corresponding increase in administrative resources; but it is also part of a continuing effort to ensure that SSA's operations are not merely more timely but also more accurate and more fair. Given the complexity of the programs, a full description would take up more space than is appropriate here, but the general focus of the reengineering is to simplify the definition of disability, the handling of cases at the initial level, and the appeals process. To this end, the complex "listings" of qualifying impairments now in use are to be replaced by a simpler "Index of Disabling Impairments;" the responsibilities in the field office for each case will be delegated to a single "case manager" who will see the application through from start to determination, with discretion to involve physicians and other experts on an as-needed basis; and the near-automatic reconsideration process for denied applicants in the field will be eliminated, while appeals to administrative law judges will be mediated by adjudicators who will prepare the case for rapid decision and, when circumstances warrant, award benefits before the appeal is heard.

The last two steps—duration on the rolls and ways of leaving them—have been the subject of considerably closer study, but much remains to be determined. We are addressing these issues in a number of ways, including intensive use of the information in our internal record system and, particularly, longitudinal data on DI beneficiaries who worked after benefits began, which was captured in our 1982-91 New Beneficiary Data System; some 19 percent of disabled workers reported work after their benefits began, most commonly because of economic need. Unsurprisingly, their jobs tended to be less physically demanding, less responsible, and requiring shorter hours than pre-disability work. Only about a quarter of these received any kind of vocational rehabilitation services, even fewer were aware of the work incentive provisions of the present program, and almost none reported that they were a factor in the decision to reenter the labor force. Additional research is clearly needed to find return-to-work techniques that are more effective,

especially among the less motivated beneficiaries. In pursuit of this goal, the Commissioner of Social Security has recently established a team to work with SSA staff and other key Federal and State agencies to develop an "Employment Strategy for People with Disabilities." We are also participating in a cross-national study organized by the International Social Security Association (ISSA) to examine aspects of the medical and benefit system that lead to persons with specific conditions leaving and reentering the labor force.

There are two other issues facing us today that will clearly affect us in the coming years, but do not fit easily into the framework outlined above. The first, which we are already grappling with, is the treatment of children. Recent court decisions (the *Zebley* case) have had the effect of considerably increasing the availability of SSI disability benefits to children. The standard to be used is to treat children on an equal footing with adults. Since the adult disability criterion is built around an ability-to-work concept that is inapplicable to persons not of labor-force age, an alternative must be sought in redefining disability around ability to perform "age-appropriate activities." As there is often no consensus on what these are, and as obviously quite different standards must be applied to infants, young children, and adolescents, the development of a fair and effective determination process for children is a challenge that will not soon be surmounted.

Child benefits also raise a particularly severe issue of moral hazard. The benefits are paid to parents, and those with lower incomes have a strong incentive to search for an expert who will diagnose a sufficiently disabling problem. This gains them benefits, but causes the child to be placed in a stigmatized status that may sufficiently impair subsequent development and lead, in effect, to a stunted adult life. Moreover, these parents have an incentive to worsen their children's condition rather than try to make it better. A steady trickle of reports from the nation's newspapers indicates that some percentage of poor parents may be encouraging their children to fail to

perform or behave appropriately in schools so that they can receive benefits to be spent at the parents' discretion. This has led to much public criticism and is obviously socially undesirable. A fair resolution which gets benefits to children who are genuinely disabled without undesirable side effects is needed, but it will not be easy to arrive at. Recent legislation has mandated a commission to study these issues and recommend changes.

At the same time, and with longer-term implications, fundamental questions are being raised about the rationale of disability insurance. When the DI program was designed in the 1950's, it was largely taken for granted that medically determinable conditions acted, for a time at least, to exclude some former workers from functioning in their usual role as workers. The program was intended to provide earnings replacement for those who had been cut off from the mainstream; from the beginning it also had an emphasis on encouraging rehabilitation, but this has to date affected only a small minority of beneficiaries. In more recent years, that perspective has increasingly been seen as insensitive to the rights of persons with disabilities.

This philosophical reassessment has been formalized with the passage of Public Law 101-336, the 1990 Americans with Disabilities Act (ADA). Its underlying premise, to put it in the most dramatic if slightly oversimplified form, is that persons are not disabled or undiseased—they merely have greater or lesser needs for accommodation or assistance to carry out given activities. This redefinition of social roles renders the conceptual underpinnings of the DI program problematic. If those with physical or functional impairments are not set apart from society, but instead are seen as a reason to simply widen the spectrum of allowances that must be made for personal differences, then it is incongruous to operate a program whose rationale is to sort out applicants who are to be supported as a special class. Rather, the implied approach to impairment is to adjust the applicants' circumstances so that they can function in the same way as anyone else. If Social Security's empha-



sis shifts to reflect this perspective, our disability operations will necessarily require major revision.

In some respects, the change represents an opportunity. While one of the statutory goals of the program has always been to promote the rehabilitation of disabled workers to the point that they can reenter the labor force, in practice this has always proven feasible for a very small percentage of cases. A shift backed with the force of law toward reengineering jobs in the labor force, to accommodate individuals with a wider range of capabilities, *may* lead to a decrease in the number of workers who must rely on earnings-replacement benefits rather than their own earnings. In any case, these developments call on us to exhaustively rethink how our disability programs work and how they might be improved.

This is a challenge that we cannot face passively, and we are not doing so as we prepare for the new century that is now at hand. The last of a series of Advisory Councils constituted of interested parties and experts from outside the government is currently engaged in a far-reaching review of the entire system of Social Security programs and the role that they will play in the coming era. The Advisory Councils' recommendations will not be the last occasion to improve our disability program. As part of the process of making the Social Security Administration an independent agency reporting directly to the President and Congress, the old system of periodic Advisory Councils is to be replaced by a standing Social Security Board with a long-serving membership. Among its duties, the Board is charged with a continuing mandate to study and review the nation's disability systems. While we do not yet have the solutions in hand to resolve all the problems in the present disability programs, we have set in motion the mechanisms needed to ensure that the job will be done.