

## ***A Primer: Social Security Act Programs to Assist the Disabled***

This summary is designed for those who are unfamiliar with the many current features of federally sponsored disability and health programs under the Social Security Act, including the Social Security Disability Insurance (DI) program, the Supplemental Security Income (SSI) program, Medicare, and Medicaid. It provides an overview of the provisions and operations of the programs. Several SSA resources were consulted in compiling the material:

- **Social Security Handbook** (available at [http://www.socialsecurity.gov/OP\\_Home/handbook/handbook.html](http://www.socialsecurity.gov/OP_Home/handbook/handbook.html));
- **Annual Statistical Supplement to the Social Security Bulletin, 2005** (available at <http://www.socialsecurity.gov/policy/docs/statcomps/supplement/2005>);
- **Trends in the Social Security and Supplemental Security Income Disability Programs**, by John Kearney and L. Scott Muller (available at [http://www.socialsecurity.gov/policy/docs/chartbooks/disability\\_trends](http://www.socialsecurity.gov/policy/docs/chartbooks/disability_trends)); and
- Disability program sections of the **Social Security Online** Web pages (available at <http://www.socialsecurity.gov/disability>).

This summary is intended to assist in understanding the features of these federal disability and health programs. The descriptions are intended for explanatory purposes and do not provide guidance in administrative or claimant actions.

### ***Introduction***

The Social Security Administration (SSA) administers two of the largest disability programs in the world: the Social Security Disability Insurance (DI) and the Supplemental Security Income (SSI) disability programs. In 2005, these two programs combined paid more than \$120 billion in cash benefits to nearly 11.3 million disabled individuals (and 1.7 million dependents). Both programs

have grown substantially in cost and number of participants, although the level of growth has varied from time to time. Both programs have had periods of contraction, mainly in the early 1980s, and, for SSI children, in the late 1990s under welfare reform. The law defines disability as the inability to engage in substantial gainful activity (SGA) by reason of any medically determinable physical or mental impairment(s) that can be expected to result in death or has

lasted or can be expected to last for a continuous period of not less than 12 months.<sup>1</sup> The SSI children's benefit category has a different definition of disability.<sup>2</sup>

Other than the common definition, the programs differ in many respects. Social Security DI benefits are earned through payroll tax contributions. Individuals must have worked in employment covered by Social Security for a specified time to be insured for benefits. However, disabled adult children or disabled widow(er)s may qualify on the record of a parent or spouse. Social Security disability benefits are not means tested, although beneficiaries may lose eligibility if they engage in substantial gainful activity. Benefits are funded by a dedicated payroll tax paid by a worker and the worker's employer and by taxes paid by a self-employed person. Additional revenue to the Social Security trust funds comes from interest on trust fund securities, income from taxation of Social Security benefits, certain technical transfers, and gifts or bequests.

In contrast, SSI benefits are intended to be an income source of last resort and are means-tested; income and resources must be within specified limits. There is no insured status or prior work requirement for SSI, and the program is funded from general revenues rather than a dedicated tax.

### ***Social Security Disability Insurance***

The Social Security insurance programs are funded by the payroll contributions of covered workers and their employers. Workers contribute to Social Security through a payroll tax of 7.65 percent of covered earnings (subject to a maximum), and employers match the employee contribution. Self-employed individuals pay both portions (employer and employee), or 15.3 percent. The contributions are then allocated to the program trust funds. In 2006, the allocation is as follows:

- 5.3 percent to the Old-Age and Survivors Insurance Trust Fund,
- 0.9 percent to the Disability Insurance Trust Fund, and
- 1.45 percent to the Health Insurance (Medicare) Trust Fund.

To achieve insured status for DI benefits, the worker must have a specified number of credits. Credits (also known as *quarters of coverage*) are earned by working at a job covered by Social Security. Each year the Commissioner of the Social Security Administration determines the amount of earnings from work that is required to earn a credit. In 2006, an earnings amount of \$970 earns one credit. A worker can earn up to four credits each year. Insured status for disability benefits is

subject to a two-part test: the worker must be fully insured and must also have current work. To be fully insured, a worker must have between 6 and 40 credits, depending on the age at the time the disability began. For current work, the worker needs to have earned at least 20 credits during the period of 40 calendar quarters that ends with the quarter in which the disability began. Special rules apply to persons younger than age 31 or disabled because of blindness: such younger workers need a minimum of 6 credits, regardless of their age at the onset of disability, and at least 1 credit for every 2 quarters elapsing between age 21 and their onset date.

The benefits payable are calculated on the basis of the worker's earnings from employment covered by Social Security. The worker's benefit is based on a measure of lifetime predisability earnings: average indexed monthly earnings (AIME). In computing the AIME, past earnings are adjusted, or indexed, to reflect the change in general wage levels that occurred during the worker's years of employment and are then averaged over the work years. A formula is applied to the AIME to compute the primary insurance amount (PIA). The PIA is the basis for the benefits that are paid to an individual and is the sum of three separate percentages of portions of the AIME. The portions are adjusted yearly based on the increase in the national average wage level. For 2006, these portions are (a) 90 percent of the first \$656 of the AIME, plus (b) 32 percent of the AIME over \$656 and through \$3,955, plus (c) 15 percent of the AIME over \$3,955. Once calculated, the worker's PIA is adjusted annually for changes in the consumer price index.

A worker must be disabled for 5 full months before qualifying for DI; entitlement begins with the first full calendar month after the end of the 5-month waiting period. Medicare coverage is available after the worker has been entitled to disability benefits for 24 months. At the Social Security full retirement age (currently between ages 65 and 67, depending on year of birth), DI benefits are converted automatically to retirement benefits.<sup>3</sup> In December 2005, the average monthly benefit paid to a disabled worker was \$939.

Benefits may be paid to the disabled worker and to qualified dependents of the worker, on the basis of either dependency or the disability of a dependent. Dependents' benefits can be no more than one-half of the worker's PIA, disabled widow(er)s' benefits can be no more than 71.5 percent of the worker's PIA, and surviving disabled adult children's benefits can be no more than 75 percent of the worker's PIA. The combined benefit for the disabled worker and all dependents is subject to a maximum family benefit amount, which is generally limited to 150 percent of the worker's PIA, or less. In December 2005, disabled workers who had a dependent spouse and

children had monthly benefits averaging about \$1,571 per month. The following disability benefits are paid from the Social Security trust funds:

- From the DI trust fund
  - Worker’s benefit (paid to the holder of the Social Security number on the basis of his or her disability)
  - Spouse’s benefit (paid to a spouse aged 62 or older or who has an entitled child in his or her care who is under age 16 or disabled)
  - Child’s benefit (paid to a child under age 18 (under 19 if a full-time student) who is a dependent of a disabled worker)
  - Disabled adult child’s benefit (paid to the child of a disabled worker)
- From the OASI trust fund
  - Disabled widow(er)’s benefit (paid to a disabled widow(er) who is over age 50 and whose deceased spouse was an insured worker)
  - Disabled adult child’s benefit (paid to the child of a retired or deceased worker)

Low-income Social Security disability beneficiaries may concurrently collect Supplemental Security Income benefits if they meet the income and resource requirements, but any Social Security benefits above the \$20 general income exclusion are counted as income to those beneficiaries. In 2004, 35 percent of all SSI recipients also received Social Security benefits.

The Social Security disability program includes work incentive provisions and access to vocational rehabilitation services to promote return to work. The Ticket to Work and Work Incentive Improvement Act, enacted on December 17, 1999, includes several important new opportunities for people who receive Social Security disability benefits and want to go to work. The law

- increased beneficiaries’ choices in obtaining rehabilitation and vocational services to help them go to work and attain their employment goals,
- removed barriers that require people with disabilities to choose between health care coverage and work, and
- ensured that more people with disabilities have the opportunity to participate in the workforce and lessen their dependence on public benefits.<sup>4</sup>

An insured worker’s disability benefits may be terminated for several reasons. The three most common reasons are the following:

- The beneficiary attains the full retirement age. When the worker reaches full retirement age, the benefit is automatically converted to a retired-

worker benefit. Approximately 43 percent of terminations of disabled-worker benefits in 2005 were conversions to retired-worker benefits.

- The beneficiary dies. Approximately 41 percent of terminations of disabled-worker benefits in 2005 were due to the death of the disabled worker.<sup>5</sup>
- The disabled beneficiary is no longer disabled. Beneficiaries who have had a medical recovery or successful reentry to the workforce are removed from the disability rolls. Approximately 13 percent of terminations of insured disabled-worker beneficiaries in 2005 were the result of medical recovery or work above the substantial gainful activity (SGA) level.<sup>6</sup>

### *Supplemental Security Income for the Blind and Disabled*

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The SSI program is a means-tested, federally administered income assistance program that was enacted in 1972 (Public Law 96-603) and began in 1974. The program provides monthly cash payments to aged, disabled, and blind individuals who meet income and resource limits as well as the medical eligibility requirements. The SSI program replaced the state-administered Old-Age Assistance means-tested programs for individuals aged 65 or older. For the blind and disabled, it replaced the federally mandated programs of Aid to the Blind, which were established in the original 1935 Social Security Act, and Aid to the Permanently and Totally Disabled, which was established in the 1950 Amendments to the Social Security Act.

Under the earlier programs, federal matching funds were provided to the states to administer programs for the aged, blind, and disabled. The SSI program federalized the earlier state programs, though states can supplement payments, and some states have been required to maintain income levels of former state recipients to ensure that no person suffers a reduction in income as a result of transfer to the SSI program. SSI was intended to provide a basic national income support program for the elderly, blind, and disabled, with a uniform minimum payment level. By having the program operate under the auspices of the Social Security Administration, it was intended that the program be uniformly and fairly administered with the same approaches used in the DI program. Unlike Social Security, the SSI program is funded by general tax revenues.

Payments may be made only to the disabled individual, not to dependents of the disabled person. There are two types of SSI disability payments:

- **Disabled children** (payments to disabled children under age 18), and

- **Disabled adults** (payments to disabled persons aged 18 or older).

In 2006, the maximum monthly federal benefit (known as the federal benefit rate) payable to an SSI disabled person is \$603 (\$904 for an eligible couple). An individual may not have countable income that exceeds the federal benefit rate. Countable income is income minus all applicable exclusions. (One example of an exclusion is the first \$65 of earnings and one-half of the earnings over \$65 received in a month.) The monthly benefit is reduced dollar for dollar with changes in countable income. Disabled Social Security beneficiaries who receive a low benefit and have limited resources may also be eligible to receive SSI disability payments.

There is no waiting period required to qualify for SSI cash payments, and in most states Medicaid benefits are available to most SSI recipients, also without a waiting period. SSI disability payments do not convert to SSI old-age payments at age 65, and persons receiving SSI disability payments remain as disability recipients. Payments cease if the individual medically improves or dies. With a few exceptions, SSI payments are suspended if income or resources exceed levels established for eligibility.

The SSI program includes work incentive provisions and access to vocational rehabilitation services to promote return to work, although few SSI recipients leave the rolls through work. Since 1980, SSI recipients can work above the SGA level and remain eligible for reduced cash payments and continuing Medicaid benefits. In addition, under the section 1619(b) provisions of the Social Security Act, Medicaid coverage may continue for qualified SSI recipients who have earnings above the SGA level and no longer receive SSI cash payments.

SSI disability payments may be terminated for several reasons. The three most common reasons and their share of terminations in 2004 are as follows:

- **Excess countable income**—about 35 percent for children (under age 18) and 61 percent for adults (aged 18 or older),
- **Death**—about 7 percent for children and 18 percent for adults, and
- **No longer disabled (medical recovery)**—about 28 percent for children and 6 percent for adults.

### ***Definition of Disability and the Determination Process***

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The definition of disability is the same for all individuals applying for DI benefits and for adults applying for SSI benefits. As discussed above, the law defines disability as

the inability to engage in substantial gainful activity by reason of any medically determinable physical or mental impairment(s) that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months.

Under the Social Security programs, the decision on whether an adult is disabled is based on a five-step sequential evaluation process that is outlined in Box 1. All SSA adjudicators follow this five-step evaluation in making disability decisions for adults at all levels of the administrative process.

The definition of disability and the sequential evaluation process for SSI children (individuals under age 18) is similar to that for adults, but disability is determined according to the severity of the physical or mental impairment(s) and not according to vocational factors. For children, the impairment(s) must cause “marked and severe functional limitations,” which means the child’s impairment must meet, be medically equal to, or be functionally equal to the medical impairment listings.<sup>7</sup>

### ***DI and SSI Program Administration***

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The DI and SSI disability programs’ decisions are made jointly by the federal and state governments following federal rules and regulations. Applications for disability benefits are taken by SSA field staff over the phone, in one of the 1,300 local field offices, or, increasingly, over the Internet. Preliminary determinations on the claimant’s technical eligibility (insured status, resources, and so on) are handled by field office staff.

### ***State Disability Determination Services***

Claims are forwarded to the state Disability Determination Services (DDS) for a medical determination. The DDSs are state agencies responsible for developing medical evidence and rendering the initial determination on whether the claimant is disabled or blind under the law. SSA reimburses 100 percent of necessary costs that the states incur in performing this function.

Usually, the DDS first tries to obtain evidence from the claimant’s own medical sources. If that evidence is unavailable or is insufficient to make a determination, the DDS arranges for a consultative examination to obtain the additional information needed. After completing its initial development of the case, the DDS makes the disability determination. The determination is made by a two-person adjudicative team consisting of a medical or psychological consultant (who is a physician or psychologist) and a disability examiner.

**Box 1.**  
**The Five-Step Process for Determining Disability**

**1. Is the claimant working?**

If the individual is working and his or her work is substantial gainful activity (SGA), then the individual is not disabled for Social Security purposes.

**2. Is the medical condition “severe”?**

Does the individual have an impairment or combination of impairments that significantly limits his or her physical or mental ability to do basic work activities? Basic work activities include walking, standing, sitting, lifting, seeing, hearing, speaking, using judgment, understanding, and carrying out and remembering simple instructions. If the impairment or combination of impairments is slight and has no more than a minimal effect on the ability to do basic work activities, the individual is not disabled for Social Security or SSI purposes.

**3. Is the medical condition included in the Listing of Impairments?**

The Listing of Impairments describes impairments for each body system that are considered severe enough to prevent the person from engaging in any gainful activity. If the claimant’s condition (or combination of medical conditions) is not on the list, the adjudicator looks to see if the severity of the condition is equal to a condition on the list. If, based on the medical records, the severity of the medical condition is on the list or equals that of a listed impairment, the claimant is disabled. If it does not, the adjudicator goes on to step 4.

**4. Can the individual do the work that was done before?**

This step requires that the adjudicator first determine the claimant’s residual functional capacity or what the claimant can still do despite any physical and mental limitations caused by a medically determined impairment(s) and related symptoms. The residual functional capacity is then compared with the physical and mental demands of work that the claimant performed in the past 15 years. If the claimant has the residual functional capacity to perform such work, he or she is found not disabled. If the claimant does not have the residual functional capacity to perform past work, the adjudicator goes on to step 5.

**5. Can the individual do any other type of work?**

If the claimant cannot do the work performed in the past, the adjudicator checks to see whether the claimant would be able to do other work. The adjudicator evaluates the claimant’s residual functional capacity, age, education, work experience, and any skills that could be used to do other work. If the claimant cannot do other work, he or she is determined to be disabled. If the individual can do other work, he or she is found not disabled.

SOURCE: Adapted from Social Security Administration, *Disability Benefits*, SSA Publication No. 05-10029 (January 2006), available at <http://www.socialsecurity.gov/pubs/10029.pdf>.

***Social Security Field Office Processing***

After the DDS makes the disability determination, it returns the case to the SSA field office for appropriate action, depending on whether the claim is allowed or denied. If the DDS finds the claimant disabled, SSA will complete any outstanding nondisability development of the case, compute the benefit amount, and award benefits. If the claimant is found not disabled, the file is retained in the field office in case the claimant decides to appeal the determination.

***Appeal of Denied Claim***

If the claim is denied, the claimant is notified of the denial and has 60 days to file an appeal. The first level of appeal is called “reconsideration,” and the case is returned to the DDS for reconsideration by a different disability examiner.<sup>8</sup> If the claimant’s denial is affirmed at reconsideration, the next level of appeal is a hearing before an SSA Administrative Law Judge. The hearing occurs in one of about 140 hearings offices located across the country (or through videoconferencing). This hearing is an opportunity to appear in person before the

decisionmaker, who is a federal, rather than state, employee. Further appeals can be made to the Appeals Council and the federal courts.

### *Postadjudicative Processes*

In addition to the initial claims process, there are post-adjudicative processes for both Social Security and SSI disability beneficiaries. Such processes include redeterminations and benefit adjustments for SSI recipients, continuing disability reviews, and the monitoring of work activity. Processes dealing with work and earnings verifications and benefit adjustments are handled by SSA staff.

### *Continuing Disability Reviews*

Under Social Security law, all Social Security and SSI disability cases must be reviewed from time to time to make sure that people receiving benefits continue to meet the disability requirements. Upon reaching age 18, children receiving SSI have their disability redetermined using the adult disability criteria. Benefits continue in payment status unless there is strong proof that a person's impairment has medically improved and that he or she is able to return to work. The individual can file an appeal if he or she disagrees with the determination. Otherwise, benefits stop 3 months after the beneficiary is notified that his or her disability ended. Benefits for dependents continue as long as the disabled worker continues to be entitled to benefits.

### *New Disability Determination Process*

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In March 2006, the Social Security Administration issued a final rule that provides for a new process to improve disability decisionmaking.<sup>9</sup> Implementation of the new process begins in August 2006 in the six New England states. The changes include:

- Establishing a quick disability determination process for persons who are obviously disabled. Favorable decisions will be made in such cases within 20 days after the claim is received by the state Disability Determination Service.
- Creating a new Medical-Vocational Expert System to enhance the expertise needed to make accurate and timely decisions.
- Eliminating the reconsideration step of the current appeals process and replacing it with a new step—a review by the Federal Reviewing Official, a trained attorney who will review state agency determinations at the request of the claimant.

- Retaining the right to request a hearing and new decision from an Administrative Law Judge if the claimant disagrees with the decision of the Federal Reviewing Official.
- Closing the record after the Administrative Law Judge issues a decision, with provision for certain good-cause exceptions to this rule.
- Creating a new body—the Decision Review Board—to review and correct decisional errors and ensure consistent adjudication at all levels of the disability determination process. The current Appeals Council will be phased out.

### *Medicare*

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Social Security beneficiaries receiving benefits based on their own disability are entitled to Medicare benefits beginning in the 25<sup>th</sup> month of entitlement. Medicare was implemented in 1966, providing medical benefits to complement the monetary benefits of Social Security retirees. In 1973, Medicare benefits were extended to disabled workers after a 24-month waiting period. Medicare is funded mainly through Hospital Insurance payroll contributions; additional sources of funding include general revenues, premiums, and a portion of the income taxes collected on Social Security benefits.

Until recently, Medicare had two parts: Part A (Hospital Insurance) and Part B (Supplementary Medical Insurance). In 1997, a third part, Part C, was added to Medicare, known as Medicare Advantage. Part C offers beneficiaries options for participating in private-sector health plans. In 2003, a fourth part, Part D, offering prescription drug coverage was added and Part B was modified. Part D was implemented in 2006. Modifications to Part B will take effect in 2007.

- **Part A, Hospital Insurance (HI)**, covers the cost of in-patient hospital care and is generally provided free to persons eligible for Medicare. It is paid out of the HI trust fund. There are deductibles and copayments under HI.
- **Part B, Supplementary Medical Insurance (SMI)**, covers doctors and other services. It requires a premium, which for most people is equivalent to 25 percent of the average expenditure for the aged for this coverage (\$88.50 per month in 2006), to be paid by the beneficiary or on the beneficiary's behalf. The balance comes from the Treasury as general revenue contributions. SMI also requires deductibles and coinsurance payments. Beginning in 2007, under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003,

beneficiaries with higher modified adjusted gross income (\$80,000 or more for individuals, \$160,000 or more for married couples) will pay a higher monthly premium based on a sliding scale that will be phased in over 3 years.

- **Part C, Medicare Advantage**, expands beneficiaries' options for participation in private-sector health care plans. Coverage and cost vary by plan. Part C receives funding from the HI and SMI trust funds and beneficiary premiums.
- **Part D, Prescription Coverage**, became effective on January 1, 2006. Beneficiaries pay a premium that varies by income level and involves deductibles and copayments. The Part D subsidy benefit is also available to assist low-income beneficiaries who meet certain income and resource requirements.

## Medicaid

As mentioned above, most SSI disabled recipients receive Medicaid coverage for their health expenses. Medicaid was established in 1965 as a joint federal/state program to provide medical coverage to the needy. States administer the program and, within federal guidelines, establish their own eligibility standards, types and levels of services, and rates of payment. Since the establishment of the SSI program in 1974, most SSI recipients have been eligible for Medicaid benefits, although in some states SSI is not a specific eligibility category. However, most SSI recipients in those states qualify for Medicaid under another eligibility category.

In some states, a Medicaid "buy-in" is available for certain categories of disabled individuals. The buy-in permits them to enroll in Medicaid even though they would not otherwise qualify because of income or resource considerations. The states may require the individual to share the cost of Medicaid by paying a premium or through some other cost-sharing arrangement, although these arrangements are generally assessed on a sliding scale based on income.

The federal government pays a percentage of total state Medicaid expenses. The federal percentage is determined by a formula based on state per capita income, with higher-income states receiving a smaller federal contribution rate. The federal contribution cannot be lower than 50 percent or higher than 83 percent. States may impose deductibles, copayments, or both for some services. And, as mentioned above, some categories of persons eligible for a Medicaid buy-in pay part or all of the cost of the coverage. For persons eligible for both Medicare and Medicaid, Medicare is the primary payer and Medicaid supplements payments.

## Notes

<sup>1</sup> The SSI program for adults has a provision (section 1619(a) of the Social Security Act) that permits recipients whose earnings exceed the substantial gainful activity (SGA) level to continue to receive some cash payments. The SGA levels for 2006 are \$860 per month for nonblind individuals and \$1,450 per month for the statutorily blind.

<sup>2</sup> Disabled children, for SSI purposes, are children who are not engaging in earnings activity and whose impairment, or combination of impairments, results in marked and severe functional limitations that are expected to end in death or to last at least 12 months (42 U.S.C. 1382c(a)(3)(C)(i)).

<sup>3</sup> See <http://www.socialsecurity.gov/retire2/retirechart.htm#chart> for a list of full retirement ages by year of birth.

<sup>4</sup> See <http://www.socialsecurity.gov/work/ResourcesToolkit/legisregQA.html> for details.

<sup>5</sup> Eligible dependents of the insured worker may become entitled to survivors' benefits.

<sup>6</sup> To be eligible for disability benefits, a person must be unable to engage in substantial gainful activity, a term that describes a level of work activity and earnings. Work is *substantial* if it involves doing significant physical or mental activities or a combination of both. *Gainful* work activity includes work performed for pay or profit; work of a nature generally performed for pay or profit; or work intended for profit, whether or not a profit is realized. For work activity to be substantial, it does not need to be performed on a full-time basis. SGA amounts increase with increases in the national average wage index. In 2006, SGA is defined as earnings of \$860 per month for nonblind beneficiaries, \$1,450 per month for blind beneficiaries, and \$620 per month for beneficiaries during months of a trial work period. A special definition of substantial gainful activity applies to individuals who are disabled by blindness.

<sup>7</sup> The Childhood Listing of Impairments ("Part B") can be found at <http://www.socialsecurity.gov/disability/professionals/bluebook/ChildhoodListings.htm>.

<sup>8</sup> Since 1999, 10 states have been operating under an alternative process that does not include a reconsideration step. Appeals of the initial decision at the DDS go directly to the hearings level.

<sup>9</sup> See details of the new process at <http://www.socialsecurity.gov/disability-new-approach>.