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Testimony for Hearing on
Securing the Future of the Social Security Disability Insurance Program

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Thank you, Chairman Johnson, Ranking Member Becerra, and members of the subcommittee for this opportunity to testify on the future of the Social Security Disability Insurance (SSDI) program. In my work as a senior fellow at Mathematica Policy Research and as director of Mathematica's Center on Studying Disability Policy, I have conducted numerous evaluations of programs and services intended to support people with disabilities, substantial research on their employment and economic status, and various studies of the factors that impede or facilitate their financial independence. I have also written and spoken extensively about the efficiency and cost-effectiveness of our nation's disability support system. My testimony today is based on this experience. SSDI is a key component of our nation's disability support system. That system is failing working-age people with disabilities as well as the taxpayers who pay for it. I will explain why and consider the implications for Congress.

Background

Of the approximately 17.5 million working-age people in the United States who live with disabilities, nearly 70 percent receive benefits from public programs. Despite increases over many decades in program participation and spending—\$357 billion in fiscal year 2008, representing some 12 percent of all federal outlays—the economic status of people with disabilities has eroded significantly. As a result, reforms will require major structural changes to the nation's disability support system. Although such changes can potentially benefit people with disabilities and taxpayers, a policy transition that is too quick and not based on solid evidence could do more harm than good.

My testimony is organized into three key areas:

- An overview of the evidence that the disability support system is failing
- A discussion of the potential for systemic reforms that would provide better opportunities for people with disabilities to live fulfilling lives *and* that would rein in growth in federal and state expenditures for their support
- Action Congress could take to jump start a process of successfully restructuring disability policies and programs

The Failing Disability Support System

As you know, both the Social Security Administration (SSA) and the Congressional Budget Office (CBO) project that without legislative action, the SSDI Trust Fund will be exhausted in 2016. This outcome is a symptom of the failing public support system for working-age people with disabilities. Other symptoms include the following: the low and declining economic status of people with disabilities; very high and rapidly growing federal expenditures to support the working-age population with disabilities; persistent problems with the disability determination process; the large surge in applications on the heels of the recession; and a smaller, delayed surge in awards (Goss 2012).

The low and declining economic status of people with disabilities is the most important symptom of a failing public support system for working-age people with disabilities. For more than two decades, the employment rate and household income of people with disabilities have been falling steadily. (Mann and Stapleton 2011, 2012). By one measure, their employment rate was just 21 percent of the rate for people without disabilities in 2010, down from 34 percent in 1981 (Mann and Stapleton 2011). The median household income of working-age people with disabilities was just half the size of that for people without disabilities, down from 63 percent in 1981. The recession has greatly accelerated the rate of decline in the economic status of people with disabilities. (Kaye 2010).

The poverty rate for people with disabilities is very high and continues to climb. Over 30 percent of those receiving SSDI live in poverty, according to the official definition of poverty. When those who receive Supplemental Security Income (SSI) are included, this figure rises to over 70 percent (Livermore et al. 2009).

One study estimated that 65 percent of working-age adults with household income below the federal poverty line for at least 36 of 48 consecutive months have a disability (She and Livermore 2009). We also know that people with disabilities who live in poverty are much more likely than their counterparts without disabilities to experience material hardship, such as going hungry (She and Livermore 2007).

Federal expenditures on the working-age population with disabilities are both very high and growing rapidly. We estimate that, through 62 public programs, federal outlays to support people with disabilities in fiscal year 2008 totaled 12 percent of all federal outlays in that year—\$357 billion. (Livermore et al. 2011; Stapleton and Livermore 2011). That’s up from 11.4 percent of all federal outlays six years earlier—the last time we estimated federal expenditures for this population. The total is about half the size of defense outlays in that year. States added another \$71 billion in 2008 to finance federal-state programs, mostly for Medicaid.

The biggest programs serving people with disabilities, measured by expenditures, are SSDI, SSI, Medicare, Medicaid, and Veterans’ Health and Disability Compensation. Social Security benefits accounted for 31 percent of federal expenditures on working-age people with disabilities in 2008. If you add in the Medicare expenditures for Social Security beneficiaries with disabilities, Social Security disability beneficiaries account for a little less than half of the total federal expenditures for this population. Of course, some Social Security disability beneficiaries also receive other public benefits—SSI, Medicaid, veterans’ benefits, food and housing assistance, and miscellaneous others—but we do not have full accounting.

In the past three decades, the increase in the number of SSDI beneficiaries has far exceeded the substantial growth that can be explained by growth in the number of disability-insured workers and changes in their age-sex composition. It is useful to compare current statistics to those from 1980, when Congress and the Executive Branch were so concerned about high rates of participation in SSDI that they substantially tightened eligibility. In December 2010, the number of SSDI beneficiaries was 2.2 million larger than it would have been had the proportion of disability-insured workers receiving SSDI within each age-sex group been the same as in December 1980—a 28 percent increase (Stapleton and Wittenburg 2011; see also CBO 2008).

Persistent problems with the disability determination process, the large surge in applications following the recession, and the smaller, delayed surge in awards after the recent recession are also symptomatic of the failing disability support system (Goss 2012). I will explain why later.

Key Problems: The Inability to Work Criterion for Eligibility and Program Fragmentation

There are two fundamental problems with the current support system. The first is the use of long-term “inability to work because of a medically determinable condition” as the eligibility criterion for SSDI and SSI—programs that, for many, are the gateway to Medicare, Medicaid, and other benefits. This criterion fails to recognize that many people with severe, medically determinable impairments can, in fact, substantially support themselves through work. Four of my Mathematica colleagues illustrate this point. All have very good jobs and do not rely on SSDI, SSI, Medicare, or Medicaid. Yet they have permanent medical conditions that meet the eligibility criteria in SSA’s Listing of Impairments. One has a severe vision impairment, and one is deaf. Each of the other two is unable to walk and has other functional limitations because of physical conditions. If they stopped working for five months and told SSA that they could no longer work because of their disability, they would all qualify for SSDI. They are able to work despite their impairments because they have been able to achieve high levels of education they have received excellent health care, they can use technology and accommodations to greatly mitigate their functional limitations, and they have developed strong personal support networks. SSA would not consider these factors in determining their ability to work. My colleagues’ impairments might have prevented people from working in 1956, when SSDI was introduced, but they certainly do not do so today.

My colleagues choose to work, rather than rely on benefits, because their careers are much more rewarding than a lifetime of dependence on public benefits, economically and personally. By making inability to work for medical reasons a criterion for support, the federal disability programs create a disincentive to work for those with significant medical conditions, foster long-term dependence, and increase poverty among the very people they are intended to help. Our support system essentially funnels people with severe impairments who do not have all of the advantages of my colleagues into a life of dependence on public support rather than helping them to become self-sufficient. Instead of helping people achieve their full potential, the current disability support system has created a poverty trap (Stapleton et al. 2007).

The inability to work criterion is a fundamental reason why the disability determination process is so problematic—it requires SSA to assess whether people can work on the basis of medically determinable conditions alone—literally an impossible task. It also explains the surge in applications and awards following the recession; workers like my colleagues with disabilities can use SSDI as an extended unemployment insurance program when they are laid off for other reasons.

The second fundamental flaw in the current support system, program fragmentation, has been amply documented by the Government Accountability Office (GAO 2005, 2008). A patchwork of federal and state disability support programs has created pervasive inefficiencies, including overlaps and gaps in services, misaligned incentives, and conflicting objectives.

Of relevance to SSDI, states have incentives to help young adults with severe impairments enter SSDI. Under current rules, people age 24 and younger can meet the work history requirement by earning as little as \$4,520 per year for just one and a half years. On a monthly basis, that's less than 40 percent of the amount that SSA uses to define “work” for non-blind beneficiaries—the substantial gainful activity (SGA) amount. If an individual is enrolled in Medicaid or receiving other health benefits from state programs, that person's entry into SSDI will eventually result in the shifting of some state Medicaid expenditures to federal Medicare expenditures. State expenditures for some other services, such as mental health care, might also shift to Medicare upon a person's entry into SSDI.

State welfare agencies have a strong incentive to help their Temporary Assistance for Needy Family (TANF) beneficiaries enter SSI; under current rules, the agency gets to keep all of the TANF benefit savings. State vocational rehabilitation (VR) agencies also have an incentive to help clients who are not on SSDI or SSI to enter these programs. SSA might pay for the VR services if a client becomes a beneficiary, but it will not pay for the services if a client is not a beneficiary.

Social Security Policy Reform

Both logic and a growing body of evidence suggest that there are systemic reforms that would provide better economic opportunities for people with disabilities *and* reduce growth in federal and state expenditures for their support. I call them “win-win” policy reforms. Policy changes that put more emphasis on helping people with disabilities take advantage of their capabilities—especially before entering SSDI— and can potentially increase their income while reducing public support.

Similarly, program integration and/or coordination efforts that address the pervasive inefficiencies caused by program fragmentation could potentially improve outcomes for individuals while reducing the growth in expenditures.

That's fine in theory, but where is the evidence? The evidence is substantial, although in my view, it is not rich enough to move ahead with systemic reforms. A basic piece of evidence is that we've had better outcomes in the past without the important advantage of today's technologies and medical knowledge. The relative employment and household income of people with disabilities was much higher in 1980 than it is today, and SSDI participation was much lower (Stapleton and Wittenburg 2011).

Other evidence comes from several recent, methodologically strong studies. They have demonstrated that a small but significant share of SSDI beneficiaries would be working now if they were not eligible for SSDI (Chen and Van der Klaauw 2008; French and Song 2011; Maestas et al. forthcoming; Von Wachter et al. 2011). For instance, one study demonstrated that, in the absence of SSDI, 18 percent of new SSDI beneficiaries would earn above the SGA level (Maestas et al. forthcoming). Given the current number of SSDI entrants, this suggests that about 200,000 entrants each year can earn at a level that would make them ineligible for SSDI—perhaps not at the time they enter, but soon thereafter. With a work-oriented support system in place, that percentage might well be higher.

There is also a significant body of evidence that private disability insurers and workers' compensation insurers can and do help some workers successfully return to work after the onset of severe impairments (McLaren et al. 2010).

There is a smaller, but growing body of evidence that more work-oriented policies for youth and young adults with disabilities can lead to greater employment. The evidence is especially strong for those with psychiatric disorders (Burke-Miller et al. 2012), the primary impairment of over 15 percent of new entrants. More evidence is starting to emerge from SSA's Youth Transition Demonstration (Fraker and Rangarajan 2009).

Finally, there is a growing body of evidence in other countries with advanced economies that are experimenting with pro-work policy changes (Organization for Economic Cooperation and

Development 2010; Burkhauser and Daly 2011). The Netherlands and the United Kingdom are the most obvious examples. Their work-oriented policy reforms are, of course, controversial, and the information about the impacts on the economic status of those affected is very limited, but it is quite clear that the reforms are reducing entry into public long-term disability benefit programs. It also must be said that our ability to learn from other countries' efforts is limited by institutional and cultural differences. But nonetheless, there are important lessons to learn from their reforms.

Roadblocks to Major Structural Reform

The evidence base is not strong enough to proceed with major structural reforms on a timetable that would address the exhaustion of the SSDI Trust Fund. The risks would be too high. If disability policies and programs were restructured on the basis of what we know now, there is a good chance that the reforms would not be win-win. As a group, people with disabilities might be worse off, or growth in public expenditures for their support might accelerate, or both.

For example, at least two proposals are designed to reduce the number of workers entering SSDI by increasing incentives for employers to retain workers after the onset of a disability (Autor and Duggan 2010; Burkhauser and Daly 2011. See also Social Security Advisory Board, 2006, MacDonald and O'Neil 2006, and Stapleton et al. 2009). There are, however, significant concerns about the consequences of these policies. First, they could lead employers to avoid hiring people perceived to be at high risk for SSDI entry. Second, people who are truly unable to work may find their path to SSDI strewn with even bigger hurdles than under current policy. Third, implementing these policies could reduce the competitiveness of U.S. employers in a global economy. I think these concerns can potentially be addressed through details of the policy design, but current evidence is not adequate for that purpose. Nor is it sufficient to support political consensus on such reforms.

What Can Congress Do?

Congress could put the country on a path toward successful restructuring of disability policy by taking steps that go beyond short-term fixes to the SSDI Trust Fund problem. (This section draws heavily on Mann and Stapleton 2011, 2012.) One might hope that existing programs would gradually evolve to successfully address work disincentives and fragmentation. That is not likely to happen, however, without a congressional initiative. Programs that will realize savings from increased employment and reduced reliance on public benefits—primarily SSDI, SSI, Medicare and Medicaid—are the responsibility of agencies other than those agencies best situated to implement

work-oriented reforms—Education and Labor. This fragmentation is mirrored in Congress, where different committees have responsibilities for the different programs. Structural reforms require collaboration across committees—not unheard of, but not easy.

States also have to play a significant role in developing structural reforms because they administer and provide some of the financing for many disability supports. In the absence of congressional action, states might take the initiative on behalf of their disabled residents, but that rarely occurs, in part because states will realize only a fraction of any program savings and in part because they are hindered by having to obtain waivers from multiple federal programs.

The fragmentation in responsibilities for disability policies and programs helps explain why the United States lags behind many other countries in the restructuring of disability policy. Legislation is needed to jump start a process that would eventually lead to successful structural reforms. Potential legislation might do some of the following:

- Create a national disability policy reform commission
- Encourage the implementation and evaluation of pilot projects
- Define objectives and requirements for such projects
- Ensure that risks to subjects in pilot projects are minimized
- Foster a spirit of innovation and learning
- Allow considerable time to develop the evidence base that will support agreement on fundamental reforms

In the absence of progress toward win-win structural reforms, Congress will face increasingly difficult choices. To prevent the exhaustion of the SSDI Trust Fund, members of Congress have to come up with a politically acceptable combination of benefit cuts and increased revenues. I don't know of a public servant who relishes the idea of taking benefits away from people with disabilities. Americans have always displayed great willingness to provide support to people with disabilities. That's an important reason why federal outlays for their support constitute such a large share of all federal spending. But the alternative, increasing revenues, may be just as difficult.

As you continue to address the immediate Trust Fund problem, I would encourage your committee, in collaboration with other relevant congressional committees, to consider legislation that would initiate a process of long-lasting, fundamental reforms to American disability policies and programs.

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