Report
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Impact of Federal Policies on an Aging Workforce with Disabilities

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Introduction

Moving older working-age adults with disabilities into the labor force is an important policy goal that could benefit the economy, taxpayers, and affected workers. Unless employment rates increase among certain groups, the labor force will stagnate as the population ages and the number of younger adults grows more slowly. A reduction in the pool of available workers may not seem very troubling today when the demand for labor is weak and unemployment is unusually high, but a stagnant labor force could limit economic growth in coming years once the economy recovers. Increasing employment among older adults, including those with disabilities, is one of the most promising ways of expanding the labor force and boosting productivity. Between 2010 and 2025, the age 55 to 79 population will increase 40 percent, but the 25 to 54 population will grow only 5 percent (U.S. Census Bureau, 2011). And labor force participation rates have room to grow at older ages, since they remain well below the rates that prevailed 40 years ago, despite recent growth (Urban Institute Program on Retirement Policy, 2011).

Promoting employment among workers with disabilities could also reduce the cost of disability benefits, an increasingly pressing concern as disability rolls soar and the federal debt balloons (Autor & Duggan, 2006; Congressional Budget Office, 2011). Social Security Disability Insurance (SSDI) benefits — the largest source of cash payments to adults with disabilities — are funded primarily through payroll taxes levied on workers and their employers. Benefit payments have exceeded payroll tax revenues each year since 2008 (Social Security Board of Trustees, 2011). The Social Security trustees project that this imbalance will continue each year until the SSDI trust fund is exhausted in 2018 (Social Security Board of Trustees, 2011).

Perhaps most importantly, people with disabilities could themselves benefit by moving into the labor force. Employment could substantially improve their economic security, since public disability benefits are not very generous. Work often gives adults a sense of purpose and accomplishment, something they might lack if not contributing to the economy. People with disabilities could also better integrate themselves into society by joining the labor force and establishing social and professional networks at the workplace.

Despite the many benefits of work, employment rates for older working-age adults with disabilities remain low and have been dropping since the late 1980s (Autor & Duggan, 2003; Bound & Waidmann, 2002; Bound, Lindner, & Waidmann, 2010; Burkhauser & Stapleton, 2004; Maag & Wittenburg, 2003). Various explanations have been suggested for these low rates and the recent decline, which could include a drop in employer demand for low-skilled labor (Bound, Lindner, & Waidmann, 2010). Much attention, however, has focused on federal policies affecting the older workforce with disabilities. SSDI has come under special scrutiny, especially its requirement that workers be unable to engage in any gainful activities for an extended period before collecting any cash benefits or receiving any vocational rehabilitation. It also forces beneficiaries off the rolls if they earn more than a certain amount after they have been enrolled for about four years.

This report assesses the potential impact of federal policy on work incentives for adults with disabilities in their sixties and late fifties. It focuses on SSDI, describing its key provisions and work incentives, comparing them to those in other disability programs, and showing how they affect work decisions by older adults with disabilities. The report also examines other federal policy and programs affecting older workers regardless of disability, including Social Security retirement, Medicare, and rules regarding phased retirement, and highlights features that discourage work at older ages.

Size and Characteristics of the Working-Age Population with Disabilities

Before describing federal policy toward an aging workforce with disabilities and how it might affect employment, this report profiles older working-age adults with disabilities. How much older adults with disabilities can reasonably be expected to work and how much public policy affects their employment outcomes depend crucially on the characteristics of this population, especially education and the severity of their disabilities. Education, for example, promotes employment. Most employers are more likely to hire and retain well-educated workers than those with limited schooling, and jobs that require little education tend to be more physically demanding, making them less appropriate for many workers with significant physical disabilities.

About 25 million adults age 55 to 69 living in the community in 2008 had disabilities, defined as some difficulty with at least 1 of 12 activities involving mobility, fine motor skills, gross motor skills, or the use of large muscle systems.[1] We classify those who report some difficulty with one, two, or three activities as having moderate disabilities, and those who report some difficulty with four or more activities as having serious disabilities. Most adults age 55 to 69 with disabilities have relatively minor impairments; only 30 percent (or 7.7 million) have serious disabilities.[2] Adults with serious disabilities make up 16 percent of the community-dwelling population age 55 to 61 and 18 percent of the population age 62 to 69 (see Figure 1). Those with moderate disabilities make up 36 percent of the 55 to 61 population and 42 percent of the 62 to 69 population.

Women and those with limited education make up a larger share of older working-age adults with disabilities than those without disabilities. At age 55 to 61, for example, only about 1 in 10 adults with serious disabilities holds a Bachelor's degree, compared with about 4 in 10 adults without disabilities (see Table 1). Adults with serious disabilities are nearly four times as likely to lack a high school diploma as those without disabilities. Women account for 63.7 percent of those with serious disabilities but only 50 percent of those without disabilities. Compared with those with no disabilities, adults with disabilities are also more likely to be African American, Hispanic, or unmarried. These differentials also exist at age 62 to 69, but they are somewhat less pronounced (see Table 2).

Figure 1. Percent of Community-Dwelling Adults Age 55 to 69 with Disabilities, by Age and Severity, 2008

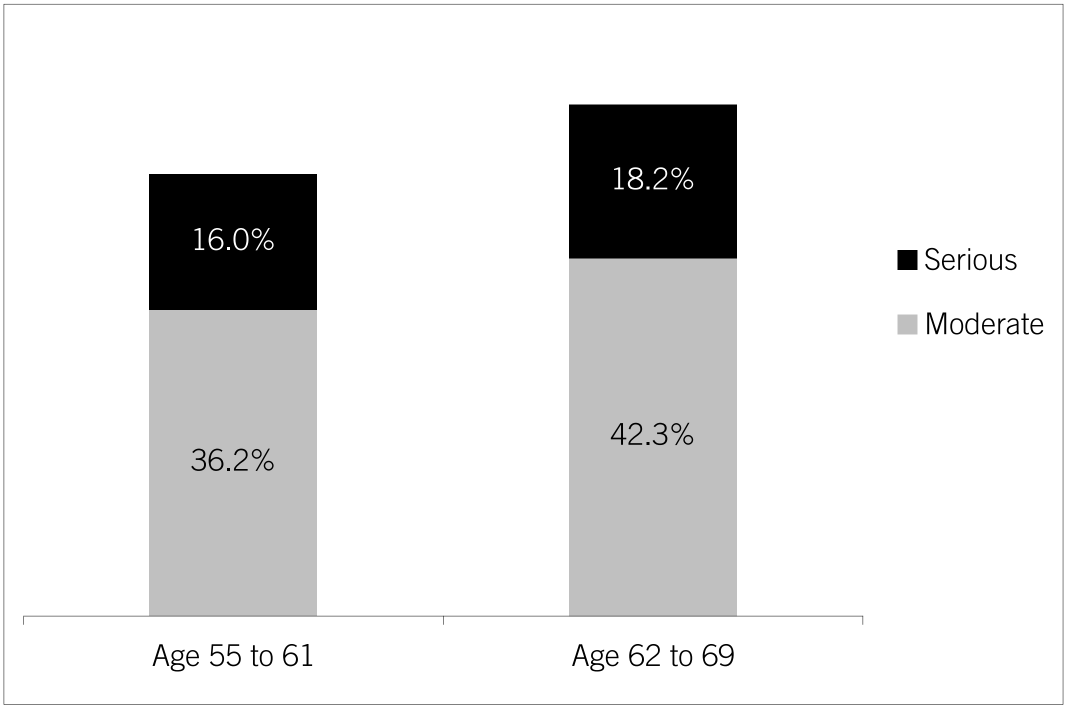

Table 1. Demographic Characteristics of Adults Age 55 to 61, by Disability Level, 2008

	None	Moderate	Serious
Female	50.0%	59.2%	63.7%
Education			
Not High School Graduate	5.8%	10.1%	21.9%
High School Graduate	26.5%	34.2%	37.5%
Some College, Less than 4 Years	27.2%	31.0%	30.2%
Bachelor's Degree or More	40.5%	24.7%	10.4%
Race and Ethnicity			
Non-Hispanic, White	80.7%	79.7%	69.8%
African American	9.7%	9.8%	14.4%
Hispanic	6.7%	7.6%	12.5%
Other	2.8%	2.9%	3.3%
Married	73.5%	69.5%	57.5%

Sources: Author's estimates from the 2008 Health and Retirement Study.

Note: Disability is determined by the number of the following activities with which the respondent reports some difficulty: walking one block; walking across the room; climbing a flight of stairs; getting in or out of bed; bathing; sitting for two hours; getting up from a chair; stooping, crouching, or kneeling; pulling or pushing large objects; picking up a dime; eating; or dressing. Respondents who report some difficulty with one, two, or three activities are classified as having moderate disabilities, and those who report some difficulty with four or more activities are classified as having serious disabilities.

Table 2. Demographic Characteristics of Adults Age 62 to 69, by Disability Level, 2008

	None	Moderate	Serious
Female	44.2%	56.4%	66.6%
Education			
Not High School Graduate	12.0%	16.2%	30.2%
High School Graduate	34.2%	38.4%	36.4%
Some College, Less than 4 Years	21.4%	24.4%	20.6%
Bachelor's Degree or More	32.4%	20.9%	12.7%
Race and Ethnicity			
Non-Hispanic, White	82.5%	82.0%	73.7%
African American	9.2%	8.5%	11.8%
Hispanic	6.7%	7.4%	9.7%
Other	1.7%	2.1%	4.8%
Married	71.2%	68.4%	55.7%

Sources: Author's estimates from the 2008 Health and Retirement Study.

Note: Disability is determined by the number of the following activities with which the respondent reports some difficulty: walking one block; walking across the room; climbing a flight of stairs; getting in or out of bed; bathing; sitting for two hours; getting up from a chair; stooping, crouching, or kneeling; pulling or pushing large objects; picking up a dime; eating; or dressing. Respondents who report some difficulty with one, two, or three activities are classified as having moderate disabilities, and those who report some difficulty with four or more activities are classified as having serious disabilities.

Employment rates decline rapidly with disability level. Among adults age 55 to 61, 32.4 percent of those with serious disabilities were employed in 2008, compared with 67.5 percent of those with moderate disabilities and 80.5 percent of those without disabilities (see Figure 2). Employment rates at age 62 to 69 are lower for all disability groups but the pattern is similar, with 21.3 percent of those with serious disabilities employed compared with 52.2 percent of those without disabilities. Although health problems reduce employment, it is noteworthy that nearly a third of those with serious disabilities work at age 55 to 61 and more than a fifth work at age 62 to 69.

Employed older adults with disabilities earn much less than their counterparts without disabilities. At age 55 to 61, for example, workers with serious disabilities earned about $15 per hour on average, compared with $31 per hour for those without disabilities (see Table 3). Workers with disabilities are also more likely to work part time. In 2008, 13.1 percent of workers with significant disabilities worked less than 20 hours per week, compared with only 5.9 percent of those without disabilities. The gaps in hourly wages and hours of work generate substantial shortfalls in annual earnings for workers with disabilities. Their average earnings barely topped $28,000 in 2008, while workers without disabilities averaged nearly $54,000 in earnings. Interestingly, workers age 55 to 61 with significant disabilities are more likely to be self-employed than their counterparts with moderate disabilities or no disabilities at all. Table 4 compares job characteristics by disability level at age 62 to 69.

Figure 2. Employment Rates for Community-Dwelling Adults Age 55 to 69, by Age and Disability Level, 2008

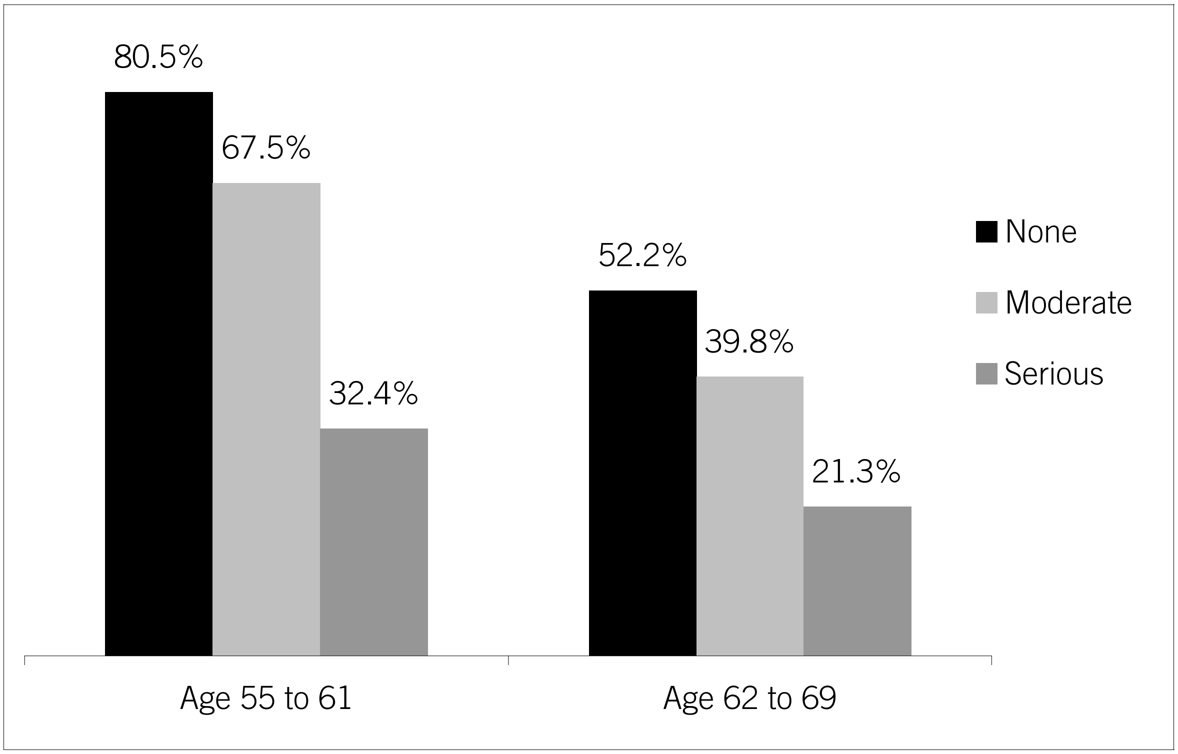

Table 3. Job Characteristics of Employed Adults Age 55 to 61, by Disability Level, 2008

	None	Moderate	Serious
Usual Weekly Hours			
Less than 20	5.9%	8.2%	13.1%
20 to 34	12.7%	14.9%	20.4%
35 or More	81.4%	76.9%	66.5%
Mean	40.8	38.6	36.0
Mean Hourly Wage	$31.2	$21.5	$14.9
Mean Annual Earnings	$53,748	$38,643	$28,376
Self-Employed	18.0%	16.9%	22.1%

Sources: Author's estimates from the 2008 Health and Retirement Study.

Note: Disability is determined by the number of the following activities with which the respondent reports some difficulty: walking one block; walking across the room; climbing a flight of stairs; getting in or out of bed; bathing; sitting for two hours; getting up from a chair; stooping, crouching, or kneeling; pulling or pushing large objects; picking up a dime; eating; or dressing. Respondents who report some difficulty with one, two, or three activities are classified as having moderate disabilities, and those who report some difficulty with four or more activities are classified as having serious disabilities.

Table 4. Job Characteristics of Employed Adults Age 62 to 69, by Disability Level, 2008

	None	Moderate	Serious
Usual Weekly Hours			
Less than 20	20.2%	20.3%	31.5%
20 to 34	22.6%	24.0%	27.4%
35 or More	57.3%	55.7%	41.2%
Mean	35.5	33.5	28.0
Mean Hourly Wage	$30.6	$23.2	$14.2
Mean Annual Earnings	$36,351	$32,537	$19,955
Self-Employed	32.4%	23.0%	30.9%

Sources: Author's estimates from the 2008 Health and Retirement Study.

Note: Disability is determined by the number of the following activities with which the respondent reports some difficulty: walking one block; walking across the room; climbing a flight of stairs; getting in or out of bed; bathing; sitting for two hours; getting up from a chair; stooping, crouching, or kneeling; pulling or pushing large objects; picking up a dime; eating; or dressing. Respondents who report some difficulty with one, two, or three activities are classified as having moderate disabilities, and those who report some difficulty with four or more activities are classified as having serious disabilities.

Many older adults with disabilities struggle financially. At age 55 to 61, mean per capita household income in 2007 was only about $26,000 for adults with serious disabilities, compared with about $64,000 for those without disabilities (see Table 5). One in five adults with significant disabilities received incomes below the federal poverty line, nearly four times the poverty rate for those without disabilities.[3] And half held no more than $57,600 in household wealth in 2008 (including the value of their home, other real estate, any businesses they owned, and financial assets). By contrast, median household wealth exceeded $300,000 for adults without disabilities. Again, differentials are similar, but somewhat less pronounced, for adults age 62 to 69 (see Table 6). Poverty rates are lower after age 62, especially for adults with disabilities, when Social Security retirement benefits first become available.[4]

Social Security Disability Insurance

Social Security Disability Insurance (SSDI) is the nation's largest income support program for working-age adults with disabilities. It provides cash benefits to insured workers with medical impairments that prevent them from engaging in substantial gainful activities. The dependents of workers with disabilities also qualify for benefits. SSDI paid benefits to 7.8 million workers with disabilities in December 2009 (Social Security Administration [SSA] 2011). Another 1.7 million children and 158,000 spouses of workers with disabilities also received benefits. Payments totaled $118 billion in 2009, with 93 percent going to workers with disabilities and the remainder to their children and spouses (SSA, 2011). Payments are based on the worker's earnings but the benefit formula is progressive, so benefits replace a higher percentage of earnings for low-wage workers than high-wage workers (although high-wage workers receive higher benefits). In December 2009, monthly benefits to workers with disabilities averaged $1,064 (SSA, 2011).

Table 5. Economic Status of Adults Age 55 to 61, by Disability Level

	None	Moderate	Serious
Mean per Capita Household Income, 2007	$64,178	$45,166	$26,378
Household Income Below Federal Poverty Level, 2007	5.5%	8.8%	20.5%
Household Income Below 125 Percent of Federal Poverty Level, 2007	7.3%	12.2%	26.7%
Household Wealth, 2008			
Mean	$661,351	$451,909	$172,230
Median	$301,000	$173,000	$57,600

Sources: Author's estimates from the 2008 Health and Retirement Study.

Note: Disability is determined by the number of the following activities with which the respondent reports some difficulty: walking one block; walking across the room; climbing a flight of stairs; getting in or out of bed; bathing; sitting for two hours; getting up from a chair; stooping, crouching, or kneeling; pulling or pushing large objects; picking up a dime; eating; or dressing. Respondents who report some difficulty with one, two, or three activities are classified as having moderate disabilities, and those who report some difficulty with four or more activities are classified as having serious disabilities.

Table 6. Economic Status of Adults Age 62 to 69, by Disability Level

	None	Moderate	Serious
Mean per Capita Household Income, 2007	$50,985	$42,341	$26,816
Household Income Below Federal Poverty Level, 2007	5.0%	8.0%	15.1%
Household Income Below 125 Percent of Federal Poverty Level, 2007	7.3%	11.1%	21.3%
Household Wealth, 2008			
Mean	$895,402	$548,505	$262,612
Median	$410,000	$243,600	$86,500

Sources: Author's estimates from the 2008 Health and Retirement Study.

Note: Disability is determined by the number of the following activities with which the respondent reports some difficulty: walking one block; walking across the room; climbing a flight of stairs; getting in or out of bed; bathing; sitting for two hours; getting up from a chair; stooping, crouching, or kneeling; pulling or pushing large objects; picking up a dime; eating; or dressing. Respondents who report some difficulty with one, two, or three activities are classified as having moderate disabilities, and those who report some difficulty with four or more activities are classified as having serious disabilities.

To receive SSDI benefits, one must be insured, meet certain administrative rules, and pass a strict disability screen. Insured status depends on one's work history in Social Security-covered jobs.[5] Workers must have earned at least one Social Security credit for each year from age 22 forward, up to age 62. In 2011, they received one credit for each $1,120 of earnings in covered jobs, up to a maximum of four credits per year. Workers must also satisfy a recency-of-work test. This usually requires that workers have earned at least 20 credits during the 40-quarter period that ends with the quarter in which the disability begins. However, workers younger than 31 — many of whom are too young to have spent 40 quarters in the workforce — may satisfy the recency-of-work test by earning credits in at least half of the quarters that have elapsed since age 21, as long as they have earned a total of six credits. (The recency-of-work requirement does not apply to workers who are blind, but they must accumulate the required number of total credits.) About four-fifths of the population age 25 to 59 were insured by SSDI in 2010 (SSA, 2011).

Insured workers may file for SSDI benefits if they have a medically determinable physical or mental impairment that prevents them from engaging in any substantial gainful activity and is expected to last at least a year or result in death. Applicants must demonstrate that they are unable to engage in any paid work, not merely the type of work they did before their disability began. (However, SSA may consider education when evaluating the disability application, as detailed below.) The first stage in the application process is to determine whether the applicant is currently earning the substantial gainful activity amount or more, set at $1,010 per month in 2012. (The substantial gainful activity amount for individuals who are blind is $1,690. The substantial gainful activity threshold amount increases each year by the percentage change in the national average wage.) If so, the application is denied. About a third of applications filed in 2008 were denied for technical reasons, primarily because the applicant earned too much or was not fully insured (SSA, 2010a).

The final stage in obtaining SSDI benefits is to pass the disability screen. SSA first determines whether the impairment is severe enough to significantly limit the claimant's physical or mental ability to do basic work activities. If so, it determines whether the impairment meets a set of criteria in SSA's listing of impairments, in which case the claimant is deemed disabled and may soon receive benefits. If not, SSA then determines whether the applicant has the "residual functional capacity" to perform past relevant work or any other work that exists in the national economy, given his or her education and work experience. If SSA determines that the claimant cannot perform work, even if the medical condition does not satisfy the listing of impairments, the claimant is deemed disabled. Musculoskeletal and mental disorders were the two most common impairments among SSDI beneficiaries, accounting for half of all awards in 2009 (Zayatz, 2011).

Applicants whose claims are denied may appeal SSA's decision. The first level is known as reconsideration. It is a complete review of the claim by an SSA staffer who was not involved in the original decision. If unsuccessful at this level, the applicant may request a hearing before an administrative law judge and then a review by Social Security's Appeals Council. The final option is to contest the claim denial in federal district court. For applications submitted in 2005, about half of those denied on medical grounds were appealed (SSA, 2010a). Only 10% of appealed denials were overturned at reconsideration, but 75% were overturned at the hearing level or above (SSA, 2010a). Overall, 36% of all awards were initially denied on medical grounds and successfully appealed.

Cash benefits may not begin until five months after disability onset, and earnings must not exceed the substantial gainful activities amount during that period. However, because there is a long backlog of disability applications and the appeals process can be lengthy, many applicants wait years to obtain benefits. In addition to cash benefits, SSDI enrollees also begin receiving Medicare after they have been on SSDI for 24 months.[6]

SSDI beneficiaries stay on the rolls until they die, their health improves, or they reach Social Security's Full Retirement Age (currently 66 for those born between 1943 and 1954 but gradually increasing to 67 for those born later), at which point their payments automatically convert to retirement benefits.[7] Earnings is one indicator of improved health, and beneficiaries who consistently earn in excess of the substantial gainful activities amount will eventually be removed from the SSDI rolls. The work rules are complex, however, and are described in more detail below. SSA also periodically conducts continuing disability reviews to ensure that beneficiaries' impairments continue to meet the criteria set for benefit receipt.

Supplemental Security Income

The Supplemental Security Income (SSI) program provides cash benefits to some economically vulnerable Americans who are aged, have disabilities, or are blind. Working-age SSI beneficiaries must pass the same disability screen as SSDI beneficiaries. Unlike SSDI, however, SSI is means-tested, and includes both an income and resource test. SSI beneficiaries may hold no more than $2,000 in assets if single or $3,000 if married, limits that have not changed since 1989.[8] Federal SSI benefits are calculated as the difference between the federal benefit rate and countable income. SSA excludes $20 of income from any source and $65 of earnings when determining the monthly SSI benefit level. Each dollar in additional earnings increases countable income by 50 cents (although some earnings are excluded under certain circumstances, as described below). Federal benefits cease once countable income equals the federal benefit rate. The 2012 monthly federal benefit rate is $698 for a single adult and $1,048 for a couple. Some states also supplement the federal SSI payment with a state payment.

In contrast to SSDI, SSI does not impose any work history requirements, so it provides a safety net for people with disabilities who are not insured by SSDI. Additionally, no waiting periods are required for SSI, and beneficiaries automatically qualify for Medicaid; in certain states, SSI beneficiaries may need to file a separate application for Medicaid with their state Medicaid agency. Many SSI beneficiaries receive payments while they are waiting for SSDI benefits and then lose eligibility once they begin receiving SSDI, as those benefits typically exceed the SSI income thresholds (Rupp, Davies, & Strand, 2008).

In 2009, 6.4 million people received federal SSI benefits because of a disability, with total disability payments amounting to $41 billion (SSA, 2010b). The average monthly payment for those receiving benefits because of a disability was $517 in December 2009.

Special Work Incentives Built into SSDI and SSI

SSDI and SSI include several features designed to encourage beneficiaries to return to work. SSDI beneficiaries, for example, can take advantage of the program's trial work period and extended period of eligibility to test their work ability without any risk of losing their benefits. They complete a month of trial work period each time their monthly earnings exceed a specified threshold. That threshold is $720 in 2012, or 80 hours of self-employment in a month. (Note that this threshold is lower than the substantial gainful activities threshold.) The earnings threshold increases each year by the percentage change in the national average wage. The trial work period lasts for nine months during a 60-month rolling window. Those nine months do not have to be consecutive.

Once SSDI beneficiaries have earned enough in each of nine months to complete their trial work period, they enter the extended period of eligibility for another 36 months. During the extended period of eligibility, their benefits are suspended whenever their monthly earnings exceed the substantial gainful activity amount, but their benefits are immediately reinstated if their earnings fall back below the substantial gainful activity amount. Beneficiaries also have three grace months within the 36-month extended period of eligibility during which they retain their benefits regardless of how much they earn.[9] Beneficiaries are immediately removed from the rolls if they earn above the substantial gainful activity amount after the extended period of eligibility ends.

The program includes additional features to encourage employment. Beneficiaries who leave the SSDI or SSI rolls because of work qualify for expedited re-entitlement. This means that if their earnings fall below the substantial gainful activities amount within five years of leaving the rolls, they can reenroll without having to complete a new application. SSDI beneficiaries retain Medicare coverage for 93 months after leaving the rolls for work. SSA also deducts the cost of impairment-related work expenses (such as special transportation costs, attendant care services, medical devices, and residential modifications) from SSDI beneficiaries' earnings when determining if their earnings exceed the substantial gainful activities amount and from SSI beneficiaries' earnings when determining countable income.

Ticket to Work

Ticket to Work is a relatively new program designed to encourage SSDI and SSI beneficiaries to return to work. Created by legislation passed in 1999 and implemented over a three-year period beginning in 2002, it provides beneficiaries with additional choice in the providers of vocational rehabilitation and employment services (such as job preparation and placement). In the past, beneficiaries could turn only to state vocational rehabilitation offices for assistance. Now, they instead receive a ticket that they may take to approved employment networks (public or private organizations or collaborations of organizations and One-Stop Career Centers that have been certified by SSA) or their vocational rehabilitation office for services. The program is voluntary, so beneficiaries are not required to "assign" their ticket to an employment network and may instead obtain assistance from state vocational rehabilitation offices without assigning their ticket as they could in the past. However, those who participate in the Ticket to Work program are exempt from continuing disability reviews as long as they demonstrate timely progress toward self-supporting employment, as measured by earnings or the completion of approved coursework or training.

Employment networks offer a wide range of services, potentially allowing ticket holders to find the combination of services that works best for them (Government Accountability Office [GAO], 2011). Some provide assistance with job search, including helping ticket holders assess the appropriateness of certain occupations, develop job-seeking skills, or start a new business. Some provide on-the-job support, such as training, job accommodations, or supported employment services (including job coaches who provide individualized, ongoing support services to improve retention). Other employment networks provide financial support services, such as financial incentives to employers to hire ticket holders and financial assistance to ticket holders themselves. The variety of services offered is important because needs vary widely among ticket holders.

The Ticket to Work program also includes incentives designed to motivate service providers to return beneficiaries to self-sustaining employment. Providers are paid only when ticket holders demonstrate earnings gains. Providers may choose between an outcome-only payment system and a milestone-outcome payment system. Under the original Ticket regulations, the outcome-only approach paid providers only when the ticket holder left the SSDI or SSI rolls; the provider would then receive payments for up to 60 months. The milestone-outcome approach made up to four initial payments to providers after ticket holders earned at least the substantial gainful activity amount and additional payments after the ticket holder left the SSDI or SSI rolls. However, providers to ticket holders who successfully left the SSDI or SSI rolls received much less under the milestone-outcome payment system than the outcome-only payment system. Because relatively few SSDI or SSI beneficiaries ever leave the rolls, these payment plans discouraged providers from participating in the Ticket to Work program (GAO, 2011). Moreover, payment rates were much lower for SSI ticket holders than SSDI ticket holders, reducing the incentive to serve those on SSI.

SSA revised the provider payment system in 2008 to encourage more providers to participate in the Ticket to Work program. The new regulations shortened the payment period so that providers could collect full payment within as few as 36 months, increased the milestone-outcome payments so that the maximum payable is closer to the maximum payable under the outcome-only system, and brought payments for SSI ticket holders in line with those for SSDI ticket holders. The 2008 reforms also lowered the earnings threshold for the first phase of milestone payments, allowing providers to collect as soon as ticket holders began earning the trial work period amount (instead of havng to wait until they began earning the higher substantial gainful activity amount).[10] These changes appear to have increased Ticket participation among service providers. In July 2010, 1,086 employment networks accepted tickets, up from 752 in Fiscal Year 2007 before the new payment schemes were available (GAO, 2011).

Nonetheless, participation in Ticket to Work remains low, and the program has not encouraged many participants to leave the SSDI rolls. Less than 1 percent of SSDI beneficiaries had assigned their tickets in 2005 (GAO, 2005). The number assigning tickets more than doubled between Fiscal Year 2007 and July 2010 (after the 2008 regulatory change), but still amounted to only two-fifths of 1 percent of eligible ticket holders (GAO, 2011).

Despite SSA's efforts to promote employment among SSDI beneficiaries, few leave the rolls because of work. About 8 percent of those on the rolls in December 2009 left during the year, primarily because they died or reached the Full Retirement Age (SSA, 2010a). Only 0.5 percent left because of work. The SSA Office of the Inspector General (2008) concluded that the Ticket to Work program has not been particularly effective, noting that the share of beneficiaries who stopped receiving benefits because of work has not increased since the program began.

As Stapleton, Liu, and Phelps (2010) point out, however, these official SSA estimates understate the share that leave the SSDI rolls for work because in any given year the vast majority of beneficiaries are those for whom work-related exits are very rare. They have either been on the rolls for no more than four years and thus cannot be terminated because of work, or they have been on the program for many more than four years, when work-related exits are very unusual (because work skills generally deteriorate during long absences from the workforce). Stapleton, Liu, and Phelps find that of those who entered the rolls in 1996, 3.7 percent had their benefits terminated for work at some point over the next 10 years (by December 2006). However, 27 percent of these leavers returned to the rolls by December 2006. Overall, then, 2.7 percent were terminated for work, a very small share, but substantially higher than the cross-sectional statistics reported by SSA. Although very few SSDI beneficiaries leave the rolls because of work, 28 percent had worked in at least one year over a 10-year period (Stapleton, Liu, & Phelps, 2010).

Plan to Achieve Self-Support

SSI beneficiaries may establish a Plan to Achieve Self-Support (PASS) that allows them to accumulate funds in excess of the SSI income and resources limits to achieve a work goal. Under PASS, SSI beneficiaries can set aside money from SSDI benefits, wages, or other income to pay expenses for education, vocational training, or starting a business as long as it is related to a specific work goal. Those funds would not count against the SSI income and resource limits. The plan must be in writing, must identify a specific work goal that the beneficiary is capable of achieving, and must include a specific timeframe. The plan must also specify how the funds will be used to achieve the work goal. SSA periodically conducts reviews to ensure that beneficiaries are progressing toward the work goals they established under their PASS.

Why Do So Few Adults with Disabilities Return to Work?

Recent econometric studies have concluded that SSDI reduces work among adults with disabilities (Chen & van der Klaauw, 2008; Maestas & Yin, 2008), and several explanations have been suggested for the low employment rates among SSDI beneficiaries. Much attention has focused on SSDI's requirement that beneficiaries be unable to engage in substantial gainful activity, which virtually precludes employment. To qualify for benefits, SSDI applicants must not receive earnings that equal or exceed the substantial gainful activities amount for at least five months, and the long application backlog and lengthy appeals process often result in much longer periods out of the labor force or with very low earnings before benefits begin. SSDI does not view disability as a continuum of functional ability and it does not recognize partial disability, unlike Veterans Administration benefits, Workers' Compensation, and most private disability insurance plans (Wittenburg & Loprest, 2003). In those systems, workers determined to have a 30 percent disability, say, would receive benefits designed to cover 30 percent of their earnings.

Because workers cannot apply for SSDI until they are fully disabled, the system does not intervene early as disabilities develop to rehabilitate workers, even though the provision of reasonable accommodations immediately following disability onset significantly increases the likelihood of returning to work (Burkhauser, Butler, Kim, & Weathers, 1999). Workers receive a SSDI voucher for rehabilitation services (the ticket to work) only after they qualify for full benefits. Workers' Compensation, by contrast, emphasizes early intervention (Sengupta, Reno, & Burton, 2010). The experience of private disability insurance shows that early intervention is key to getting employees with disabilities back to work, and that rehabilitation should start days after disability onset, not months or years later (Hunt, Habeck, Owens, & Vandergoot, 1996). Some SSDI beneficiaries do not even receive basic health care because beneficiaries must usually wait 24 months after cash payments begin to qualify for Medicare. The lack of health benefits could worsen their medical condition, making it even more difficult to return to the workforce.[11]

Given its emphasis on total disability, SSDI does not require that beneficiaries receive rehabilitation services, and few do so. For example, rehabilitation services were received by only 20 percent of SSDI beneficiaries who were dropped from the rolls because of work and only 16 percent of those whose benefits were suspended (Stapleton, Liu, & Phelps, 2010). Many European countries, by contrast, mandate rehabilitation (Wittenburg & Loprest, 2003). Germany, for example, requires that participants in the disability program obtain rehabilitation services before they receive permanent benefits. The rehabilitation intervention often begins when workers with disabilities receiving short-term benefits are still hospitalized and the health insurance agency urges them to apply for medical rehabilitation (GAO, 2001). The worker with a disability receives necessary services following an assessment of work capacity, and the case is periodically reassessed. Long-term benefits are awarded only after a determination that earnings capacity cannot be restored through return-to-work interventions. Sweden follows a similar pattern of mandatory rehabilitation before long-term benefits are provided, with an emphasis on a short, intensive rehabilitation process (GAO, 2001). Only participants who do not show improvement through rehabilitation after the first year of benefits qualify for long-term cash benefits.

The structure of SSDI benefits also appears to make SSDI beneficiaries reluctant to pursue work. Beneficiaries face a "cash cliff" at the substantial gainful activities amount. Those who earn even a dollar more than that amount immediately lose all of their cash benefits if they have exhausted the trial work period and extended period of eligibility. (By contrast, SSI benefits are reduced $1 for every $2 earned above $65 per month until benefits reach zero.) They can maintain their Medicare coverage for longer, but that will also disappear within about eight years of substantial employment. Replacing lost health care coverage is often extremely expensive for those younger than 65, when Medicare begins for those not on SSDI.[12] An ongoing demonstration project — the Benefit Offset National Demonstration — will provide new evidence on the work disincentives created by the cash cliff. In 10 sites around the nation, participants will have their SSDI benefits cut by $1 for each $2 they earn above the substantial gainful activities amount, instead of immediately losing all of their benefits.[13] SSA is also offering participants enhanced work counseling, including referrals to employment supports. Participants will maintain ongoing eligibility for health care benefits and other supports linked to SSDI eligibility. The subsequent evaluation will measure the impact of the benefit offset and enhanced counseling on employment outcomes, including wages, benefits, hours worked, and job retention.

Many working SSDI beneficiaries appear to limit their earnings deliberately so that they may remain on the rolls. About one-fourth (23 percent) of all recently employed beneficiaries said they worked fewer hours or earned less than they were able (Livermore, Wright, Roche, & Grau, 2009). A desire to retain cash and health care benefits was the most common reason for not working up to their capabilities, reported by about two-fifths of those who worked less than they were able. GAO (2011) found that many employment networks emphasized to potential clients that they could work without losing their benefits.

The work supports built into the SSDI system have had only limited success at promoting employment among beneficiaries, partly because few are aware that they even exist (Livermore, Roch, & Prenovitz, 2009). But certain drawbacks in how the work supports operate also play a role. For example, compensating employment networks under the Ticket to Work program only when SSDI beneficiaries meet certain earnings targets or leave the SSDI rolls reduces their willingness to enroll clients, because so few beneficiaries are able to make a successful transition to self-sufficient employment. Many employment networks screen ticket holders, enrolling only those with minimum educational and work experience requirements (GAO, 2011). While this approach makes good business sense for employment networks because it maximizes their chances of generating successful outcomes and receiving compensation, it is unclear whether it is the most efficient use of scarce SSDI rehabilitation funds. On the one hand, it may target resources to those who can benefit most from rehabilitation services, instead of spending limited resources to assist those with more significant barriers to employment; on the other hand, it may merely devote resources to the relatively few beneficiaries who would have returned to work even in the absence of services. Because employment networks are not compensated until ticket holders meet specified earnings targets (or leave the rolls entirely), many report difficulty financing intensive services. The most intensive rehabilitation services are generally left to state vocational rehabilitation offices (GAO, 2011).

SSA could also better monitor employment networks to ensure that they are meeting the needs of their clients (GAO, 2011). For example, the agency could collect data on the various kinds of services employment networks provide and assess which ones tend to generate the best employment outcomes. Some employment networks directly employ ticket holders, but SSA does not require them to submit a comprehensive business plan to ensure that they are sufficiently qualified and not engaging in questionable business practices. SSA could also better monitor SSDI beneficiaries participating in the Ticket to Work program. Those who are progressing toward self-sustaining employment are exempt from continuing disability reviews, but the agency does not always verify this progress, generating concern that some beneficiaries have assigned their tickets to employment networks simply to avoid disability reviews and maintain their cash benefits (GAO, 2011).

Other Federal Programs Offering Employment Services

The U.S. Department of Labor administers two programs that provide job search and readiness assistance for older workers — the Workforce Investment Act's adult and dislocated worker programs and the Senior Community Service Employment Program. For the adult and dislocated worker programs, One-Stop Career Centers, funded by WIA, provide employment and training services to workers in the community. They serve workers of all ages and those with and without disabilities. However, there is some concern that performance measures used by the U.S. Department of Labor to evaluate program effectiveness discourage centers from serving hard-to-place clients, such as older workers with disabilities (GAO, 2003). Performance measures compare earnings on the job into which the client was placed with what he or she earned on the previous job. Because wages often fall following disability onset and as workers age past 55, older workers with disabilities placed into new jobs are less likely than other workers to earn as much as they did previously, which could discourage staff from devoting much effort to placing them. Performance measures that adjust for client mix could overcome this problem, and the U.S. Department of Labor is conducting pilot studies to test this type of approach.

The Senior Community Service Employment Program is the nation's only workforce development program geared specifically to older adults. It helps workers ages 55 and older with incomes below 125 percent of the federal poverty level gain job skills by offering training (such as computer classes), placing participants in subsidized, part-time community service assignments, and providing other supports. The income restriction, however, limits participation to only older workers with disabilities who have low incomes. Additionally, funding is very limited, so the program is able to cover only a small share of those eligible (Sum & Khatiwada, 2008).

Other Federal Policies that Impede Work at Older Ages

Several existing federal programs and policies create work disincentives at older ages, although they do not disproportionately affect those with disabilities. These include Social Security's Old Age and Survivor Insurance (OASI), which provides workers, their spouses, and their dependents with retirement benefits; Medicare, tax, benefit, and age discrimination laws that restrict phased retirement programs; and the employee pension plan for federal workers.

A series of OASI reforms implemented over the past dozen years has significantly increased how much the program rewards work at older ages. The increase in the Full Retirement Age from 65 to 66 and eventually to 67 boosted the penalty for taking early retirement. Retirees can still collect OASI benefits as early as age 62, but those who retire at 62 today receive only 75 percent of their full monthly benefits, compared to 80 percent for those who retired at 62 before 2000. Once the Full Retirement Age reaches 67 in 2022, age 62 retirees will receive only 70 percent of their full monthly benefits. SSA also increases monthly benefits for those who delay collecting past the Full Retirement Age. This delayed retirement credit, as it is called, now raises benefits 8 percent for every year that beneficiaries postpone collecting, up from 1 percent a year in the past. Additionally, the retirement earnings test, which cuts OASI benefits for working beneficiaries by $1 for every $2 earned above a certain threshold, was eliminated in 2000 for those at or above the Full Retirement Age.

Certain features of OASI continue to penalize work at older ages, however. For example, the delayed retirement credit stops at age 70, discouraging workers from delaying take-up beyond that age. The retirement earnings test still applies to retirees younger than the Full Retirement Age. Also, older workers are subject to the same Social Security payroll tax as younger workers, even though additional years of work and taxes do not generally increase future retirement benefits much for workers with long careers. Eliminating or reducing the payroll tax at older ages (which is paid by both workers and their employers) could entice more older adults into the labor force and encourage more employers to hire and retain them.

Medicare rules forcing employer health benefits plans to pay for older workers discourage employers from retaining and hiring them. Federal law establishes employer-sponsored health insurance as the primary payer of health care costs for active workers age 65 and older. Medicare becomes secondary coverage, paying only for services not covered by the employer plan that are included in the Medicare benefits package. Medicare secondary payer rules add thousands of dollars per year to the cost of employing each older worker at firms that offer health insurance (Johnson, Mermin, & Steuerle, 2006).

Phased retirement programs that allow older workers to reduce their hours and responsibilities and pursue more flexible work schedules could encourage many older adults to work longer and delay retirement, especially if they develop health problems. However, few employers have established formal phased retirement programs, because they often complicate the provision of other benefits and might violate anti-discrimination rules. For example, federal laws and regulations limit retirement plan distributions to employees who are still working for the plan sponsor, which discourages phased retirement because few older workers can afford to reduce their work hours unless they can receive at least some retirement benefits. Participants in defined contribution retirement plans (such as 401[k]s) are not allowed to access their retirement accounts while still working for the employer until age 59 ½. Workers in defined benefit pension plans — the traditional plans that typically pay retirement benefits based on earnings and years of service — are generally forbidden from receiving in-service distributions before age 62. Before 2007, they could not receive in-service distributions before the plan's normal retirement age, which varies across plans but is often 65.

Other rules also discourage phased retirement plans. Benefits provided through tax-qualified plans must be fairly evenly distributed between highly compensated and lower-paid employees. However, it is difficult for many formal phased retirement programs to meet these standards because most employers gear them toward well-paid workers, who tend to have the specialized skills and knowledge that employers value and who can generally afford to reduce their work schedules. Additionally, federal law prohibits employment discrimination on the basis of age against workers 40 and older. Employers tend to be selective about which employees they offer phased retirement, and those denied enrollment in the program may sue on grounds of age discrimination. Even if these claims would be difficult to prove, the threat of expensive litigation may discourage many employers from implementing phased retirement programs.

Finally, the traditional defined benefit pension plan that the federal government (as well as nearly all state and local governments) provides its workers creates strong incentives to retire early. The plan provides a monthly lifetime pension to federal retirees equal to 1 percent of final average salary for every year of completed service. Retirees may begin collecting a full pension at age 62 after 5 years of service, at age 60 after 10 years of service, and between age 55 and 57 (depending on year of birth) after 30 years of service. Traditional pensions like the one provided to federal employees penalize work after the retirement age, because workers forego a month of benefits for every month they remain at work (and defer retirement) past the retirement age. Working beyond the retirement age usually increases monthly benefits, but not by enough to offset the reduction in the number of lifetime payments.

Conclusions and Policy Recommendations

Employment rates for older workers with disabilities are low and have been falling. Certain provisions in the SSDI system appear to discourage work by older adults with disabilities. SSDI pays benefits only to workers who are fully disabled and have not been gainfully employed for at least five months. Unlike Workers' Compensation, most private disability insurance plans, and many European countries, it does not provide partial disability benefits and does not provide vocational rehabilitation services when health problems first begin. The lack of any early intervention strategy appears to reduce substantially the chances that beneficiaries will return to work. In fact, few people on the SSDI rolls ever use any rehabilitation services. The possibility of immediately losing all cash benefits (and of eventually forfeiting Medicare coverage) by earning just a dollar more than the substantial gainful activity amount likely contributes to the reluctance to use SSDI work supports.

Several policy challenges would promote employment by older adults with disabilities. SSDI offers a number of possibilities. The system could be overhauled to emphasize getting beneficiaries back to work, instead of serving primarily as an income support program. This change in focus would require opening the program to workers with partial disabilities, instead of restricting it to those unable to engage in substantial gainful employment. This expansion would promote early intervention for workers with health problems, which has been shown to help get them back to work. Workers would no longer be forced to wait until their health problems had become severely disabling before they could receive help. Early intervention also means eliminating the five-month waiting period for SSDI. Additionally, the program could require all beneficiaries to receive vocational rehabilitation, as in many European countries.

SSDI reforms short of overhauling the system could also promote work among older adults with disabilities. For example, changes to the Ticket to Work program could lead more beneficiaries to obtain rehabilitation services. Currently employment networks receive payments from SSA only if and when their beneficiary clients meet earnings targets or leave the SSDI or SSI rolls. Because work rehabilitation can be a lengthy process, this restriction limits the ability of employment networks to provide services to SSDI and SSI beneficiaries; many employment networks report difficulty financing intensive services. Loosening this requirement might encourage employment networks to provide additional rehabilitation services. Also, better monitoring of Ticket to Work participants (and ensuring that they are making progress toward self-sufficiency and not merely using the program to avoid continuing disability reviews) could increase the likelihood that older adults with disabilities return to work.

Changes to Social Security retirement and Medicare could also boost employment by older adults with disabilities. For example, policymakers could extend the delayed retirement credit beyond age 70 (the current limit), thus increasing the reward from working at older ages. Eliminating the retirement earnings test before the Full Retirement Age could stimulate employment in workers' early sixties, because early Social Security beneficiaries would no longer believe that they were being taxed by working. Reducing the Social Security payroll tax for workers age 62 and older with 35 years or more of work history could also spur employment at older ages. Older workers with long work histories do not gain much additional Social Security wealth by working longer, yet they are subject to the same payroll tax as younger workers who accrue substantial wealth with each additional work year. Lowering the tax rate for older workers could boost their employment without further compromising the integrity of the Social Security trust fund. Finally, eliminating the Medicare secondary payer rule and thus having Medicare instead of employers pick up the bulk of older workers' health care costs could lower the costs to employers of hiring older workers. This change could also encourage more employers to hire and retain older workers.

Lastly, regulatory changes that remove obstacles to formal phased retirement programs could promote work at older ages. For example, policymakers could relax anti-discrimination rules that make it difficult for employers to selectively offer phased retirement programs to certain groups of workers.

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Endnotes

1. The 12 activities include walking one block; walking across the room; climbing a flight of stairs; getting in or out of bed; bathing; sitting for two hours; getting up from a chair; stooping, crouching, or kneeling; pulling or pushing large objects; picking up a dime; eating; or dressing. These estimates are from the author's analysis of the Health and Retirement Study, a large, nationally representative household survey of older Americans conducted by the University of Michigan for the National Institute on Aging. For more information about the survey, see Survey Research Center (2011).

2. Those age 70 and older are excluded because they are much less likely than younger adults to work, regardless of disability status.

3. The 2007 federal poverty level was $10,590 for a single adult and $21,203 for a family of four.

4. Johnson and Mermin (2009) show that poverty rates increase as adults approach age 62 and disability becomes prevalent, but then fall after age 62 once they qualify for Social Security retirement benefits.

5. All but 6 percent of jobs in the United States were covered by Social Security in 2008 (Special Committee on Aging, 2010). These jobs are concentrated in the public sector, where some state and local workers are covered by employer pension plans instead of Social Security. Other uncovered groups include students, low-wage household workers, and railroad workers.

6. Medicare benefits, then, may not begin until at least 29 months after disability onset.

7. The conversion from disability to retirement benefits at the Full Retirement Age does not change the benefit amount. It only affects how SSA counts the benefit payment in its records.

8. The value of a home, a car (if used for medical transportation), burial funds, and household goods is excluded from these limits.

9. The grace months are the first three months that earnings exceed the substantial gainful employment amount within the extended period of eligibility.

10. For more information about the 2008 regulatory changes, see *http://www.ssa.gov/work/newregs.html*.

11. SSA is testing whether providing health benefits to newly disabled workers might help reintegrate them back into the workforce. The Accelerated Benefits Demonstration project will provide immediate Medicare coverage (along with employment supports) to SSDI beneficiaries. For more information, see *http://www.socialsecurity.gov/disabilityresearch/accelerated2.htm*.

12. The Affordable Care Act may reduce this problem somewhat by making private health insurance more affordable for workers whose employers do not provide coverage.

13. For more information, see *http://www.ssa.gov/disabilityresearch/offsetnational.htm*.

About ODEP

The Office of Disability Employment Policy (ODEP) provides national leadership on disability employment policy by developing and influencing the use of evidence-based disability employment policies and practices, building collaborative partnerships, and delivering authoritative and credible data on employment of people with disabilities.

About the NTAR Leadership Center

Founded in 2007 under a grant/contract with the Office of Disability Employment Policy at the U.S. Department of Labor, the NTAR Leadership Center's mission is to build capacity and leadership at the federal, state, and local levels to enable change across workforce development and disability-specific systems that will increase employment and economic self-sufficiency for adults with disabilities.

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