

Do Disability Benefits Discourage Work?

Social Security Disability Insurance (SSDI) is intended to replace lost income for people suffering from a disability that is likely to cause substantial long-term losses in earnings. The insurance is targeted at individuals who suffer a long-lasting impairment that prevents them from engaging in a minimum level of work activity, defined by the Social Security Administration (SSA) as earning more than \$12,000 annually in 2011. Unlike similar programs in other countries, SSDI does not give partial ratings; individual applicants are deemed either able or unable to work.

During the past 20 years, the number of American workers receiving disability insurance benefits has more than doubled—from 2.9 million in 1989 to 7.8 million in 2009. At the same time, a growing share of those awarded benefits has had impairments with relatively subjective diagnoses, such as musculoskeletal and mental impairments. These trends—along with advances in medicine and workplace accommodations for the disabled—have led many to question whether some beneficiaries could actually work if they wanted to do so. Recent policies have been implemented to encourage the disabled to return to work, and others are now being debated.

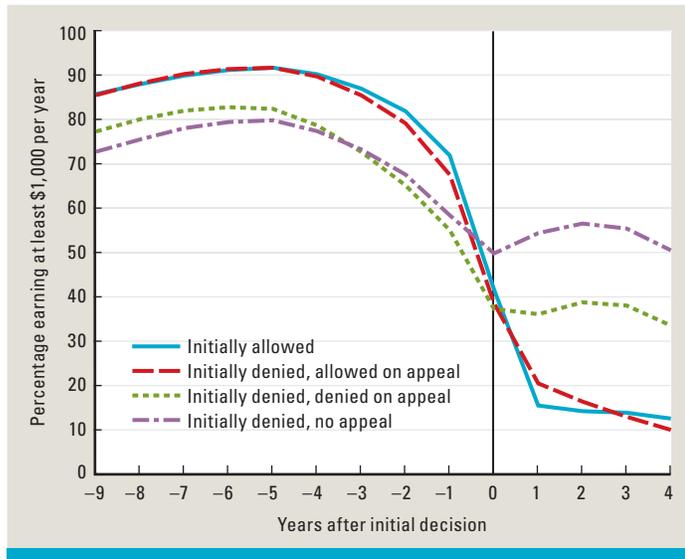
To estimate the likely effects of such policies, we need a better understanding of what is called the “disincentive effect” of SSDI on the willingness of recipients to work. A recent RAND study provides the first analysis of these

effects that uses data from the entire population of program applicants. The study found that those who have impairments that are on the margin of allowance for SSDI benefits are strongly discouraged from returning to work if they are awarded benefits. In other words, had they not been awarded benefits, a substantial fraction would have returned to some degree of paid activity.

Approach

The challenge of such analysis is to calculate what SSDI beneficiaries would have earned if their application for benefits had been denied instead of allowed. While a natural method for constructing such an estimate is to take the average work activity and earnings of denied applicants, this method will overstate the effect of SSDI receipt, since denied applicants have less severe impairments, on average, than those who receive benefits. The figure shows the labor force participation rates of SSDI applicants before and after their cases were decided in 2005. While as many as 15 percent of all beneficiaries do show some work activity in the years following receipt of benefits, work rates are much higher among denied applicants—almost 40 percent among those who pursued an appeal but were ultimately denied, and higher than 50 percent among those who did not appeal. While these figures suggest disincentive effects of 25–35 percentage points, they only provide an upper bound.

Labor Force Participation Before and After Initial Decision: 2005 Decisions



The power of the recent RAND study is that it was able to control statistically for the relationship between impairment severity and disability benefit receipt, a relationship that confounds analyses based on simple comparisons. To do this, researchers took advantage of a “natural experiment” that arises from the disability determination process itself—specifically, from the differences among the disability examiners who decide these cases. Using a unique administrative data set that contains disability examiner identification codes for the universe of SSDI applications between 2005 and 2006, the study team compared work activity among similar applicants who were initially allowed or denied benefits *only* because their applications were randomly assigned to disability examiners with different propensities to allow benefits.

The study focused on the “marginal” SSDI beneficiary—that is, someone whose impairment is just severe enough to be allowed into the program, but who could easily be denied if assigned to a stricter disability examiner. (Almost a quarter of applicants are on the margin.) For these people, the research team linked SSDI application data to administrative earnings records. That linkage identified how many of the marginal applicants returned to work two to four years from the date of the

initial determination, by which time most applicants who were initially denied benefits should have cleared the lengthy appeals process.

Finally, this unique natural experiment—randomly assigning applicants to one of many different types of disability examiners—also enabled the researchers to identify how the work-disincentive effect varies with the level of an applicant’s impairment, from most to least severe, among marginal applicants. Not surprisingly, it turns out that those who are relatively less impaired are substantially more likely to return to work if denied benefits.

Disincentives to Work

The key finding of the study is that the marginal SSDI beneficiary would have been 21 percentage points more likely to work if he or she did *not* receive SSDI. In percentage terms, this is a large effect. Even among denied applicants, work rates are low—around 50 percent. That means that an increase of 21 percentage points amounts to a *42 percent* increase in the number of impaired people who would have returned to work.

Even though these disincentive effects are large, the potential *earnings* increase among this group is relatively small, as only about half of those who would have returned to work would have earned more than \$12,000 annually. The overall average increase in annual earnings (including those who do not return to work) would have been \$1,600–\$2,500.

Importantly, the study found evidence of substantial variation in the disincentive effect by level of impairment among marginal applicants. Beneficiaries with the most severe impairments would not be any more likely to work if they had not received SSDI. Beneficiaries with the least severe impairments, on the other hand, would be as much as 60 percentage points—or 120 percent—more likely to work if they had not received SSDI.

Who Are the Marginal Beneficiaries?

This last finding suggests that there may be scope for reducing the adverse impacts of SSDI on work activity

by targeting beneficiaries more effectively during the applicant screening process. Another key finding of the study is that one-quarter of applicants are on the margin of being allowed or denied, depending on the type of the disability examiner they are assigned.

The characteristics of marginal applicants would be of policy interest even if there were only small differences in work disincentive effects across applicants. This is because marginal applicants will be most affected by future policies that would tighten or loosen access to benefits, and consequently have the most impact on policy cost estimates. The study found that marginal applicants are younger, more likely to have mental disorders, and more likely to have had lower earnings before they became disabled. If awarded benefits, these individuals typically have higher health care costs and longer durations of benefit receipt.

When considering policies that tighten or relax access to disability benefits, it is important to understand the different channels through which it is possible to receive benefits. Half of all applicants who are awarded benefits are accepted by a disability examiner in the initial phase, while the other half *are first rejected* by an examiner (because they are considered capable of work) but later allowed on appeal, typically by an Administrative Law Judge. These rates vary considerably by impairment type. The table illustrates that people with mental impairments are much more likely to be allowed by an examiner on initial review than on appeal by a judge; in contrast, people with musculoskeletal impairments are much more likely to be allowed by a judge after being

Initial and Ultimate Allowance Rates for Top Five Impairment Types

Body System	Percentage of Applications	Initial Allowance Rate (%)	Ultimate Allowance Rate (%)
Musculoskeletal	37.0	23.5	61.2
Mental disorders	21.6	42.5	66.7
Cardiovascular	8.2	36.3	69.5
Neurological	8.2	45.8	73.0
Endocrine	4.2	20.3	59.8

Source: Authors' tabulations of pooled 2005–2006 sample.

denied by an examiner on initial review. The high number of overturned initial decisions and the differential handling of musculoskeletal and mental impairment cases points to inefficiencies and inconsistencies in the evaluation of cases.

Conclusions

This research helps inform the policy debate by highlighting costly inefficiencies in the current SSDI program. Most important, it identifies a significant amount of work capacity among a subset of current beneficiaries. It also highlights a major inefficiency in program operations: potentially redundant and inconsistent processing of a large fraction of applicants who are ultimately allowed to receive benefits. This kind of evidence should be useful to policymakers and taxpayers who are interested in constraining the growth of the SSDI program. ●

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