

Health Shocks and Disability  
Transitions among Near-Elderly  
Workers

Discussant Remarks

By

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# SSA's Disability Programs: Extensive Programs Serving Vulnerable Groups

(Source: SSA publications)

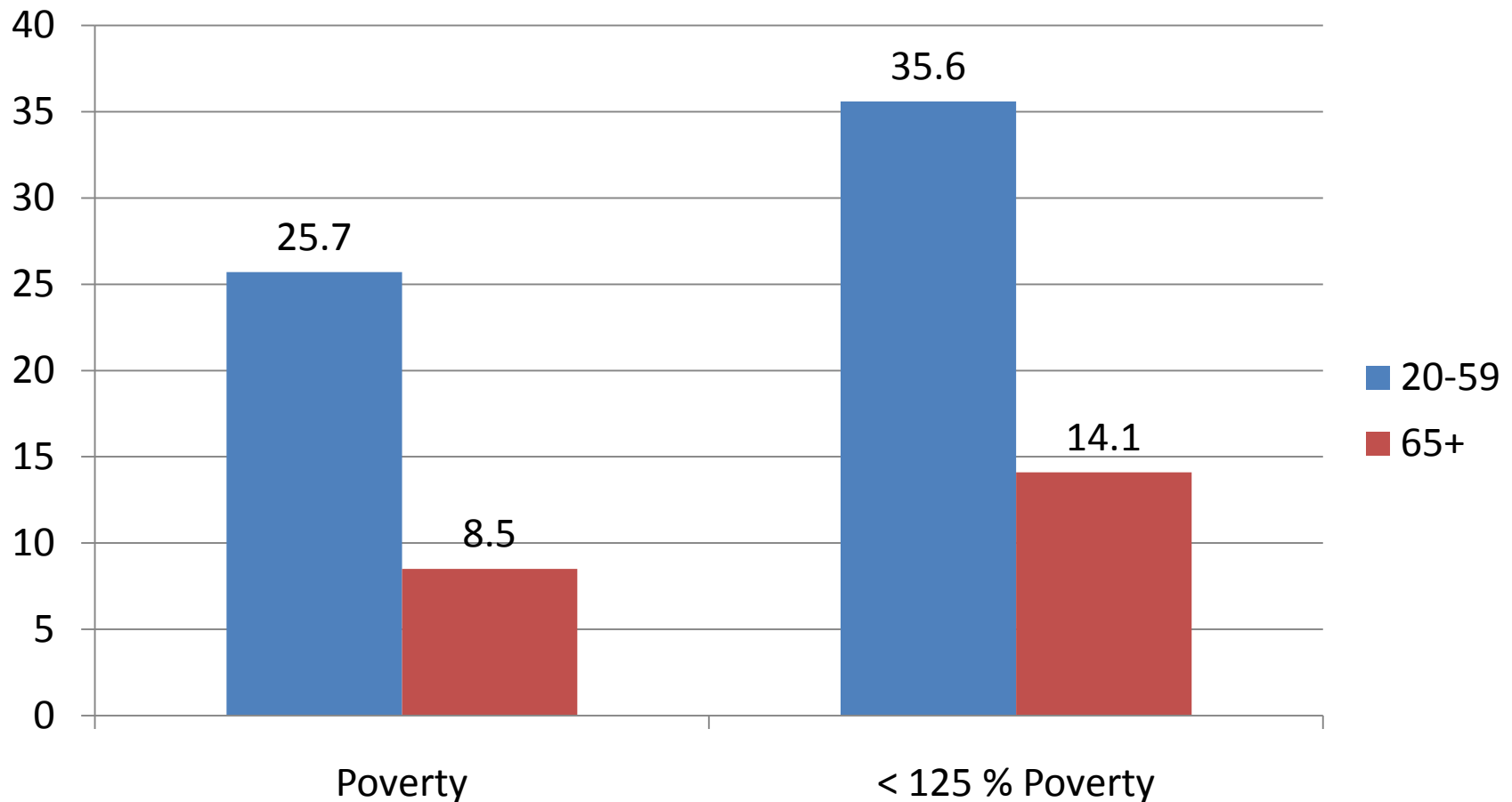
- **Social Security**
  - 8.2 million disabled workers
  - 1.8 million children of disabled workers
  - Nearly 1 million disabled adult children (DACs)
  - About 250,000 disabled widow beneficiaries
- **Supplemental Security Income (SSI)**
  - 6.7 million blind and disabled SSI recipients
    - 1.2 million children

# SSA's Disability Programs: Extensive Programs Serving Vulnerable Groups

- Supplemental Security Income
  - By design, serves low income families with limited assets
    - Federal maximum for individual (\$674) is below the federal poverty threshold
    - Asset limit is \$2,000 for an individual
- Social Security
  - Not means-tested, but disabled population often has limited income and assets relative to other Social Security beneficiaries

# Percent of Social Security beneficiaries with low income by age group

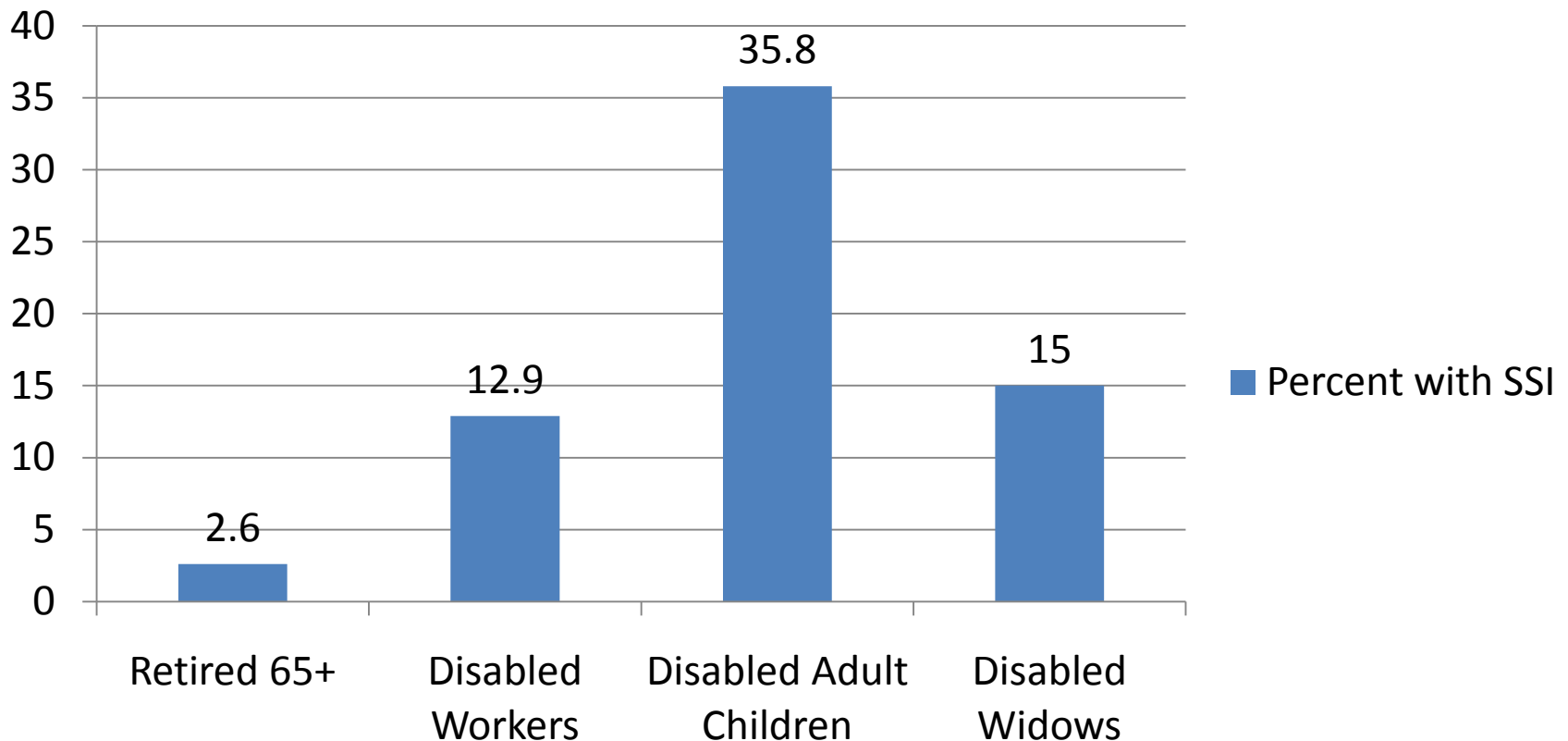
(Source: Discussant Tabulations from 2008 ACS)



# Percent of Social Security Beneficiaries who Qualify for Means-Tested SSI

(Source: SSA's 2010 Statistical Supplement)

## Percent with SSI



# Research on Disability Programs

- Given the size and populations served by the disability program, it is important to understand the underlying determinants of disability applications and to be able to categorize them (health vs. economic)
- Authors do a very careful job of measuring the health determinants
  - Exploit the longitudinal structure of the HRS to capture exogenous shocks to health
- Do not measure financial incentives explicitly, but include a large set of demographic and economic variables as controls

# General Findings

- Health shocks are important drivers in disability applications
  - Major shocks generate up to an 11 percentage point increase in application rates
- Variables such as education decline in importance once health is carefully modeled
- Some interesting demographic results:
  - Race is an important predictor even after extensive controls
- Some support for the role of economic variables

# Policy Implications

- **Big Issue: Do the programs work as intended?**
  - If health category variables are the main driver, some of the criticism of the disability programs may be overstated
- **At the Margin: Design of specific features**
  - Example: The family maximum for the DI program

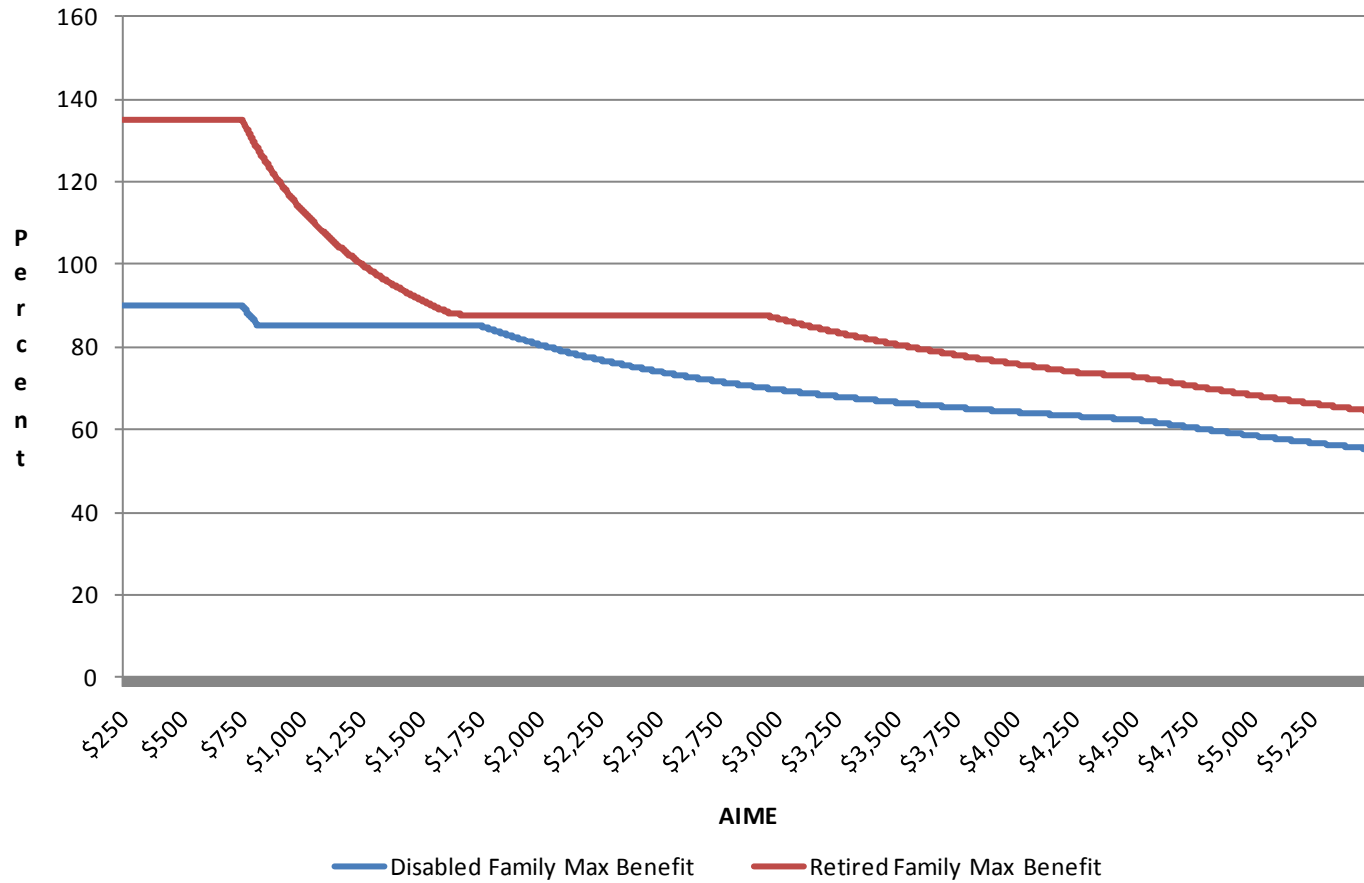


# Family Maximums

- A tight family maximum was introduced for disability benefits in 1980, especially for low earners
  - The disability maximum ranges from 100 to 150 percent of the basic benefit amount.
- Retirement and survivors maximums allow for the payment of greater family benefits
  - Maximum ranges from 150 to 188 percent of the basic benefit amount
- Policy driven by concerns over the economic aspects of the disability decision

## Replacement Rates (Family Benefit / AIME)

### 3 Person Family



# Other Policy Implications

- If economic variables are unimportant:
  - Would they be important if individuals better understood the incentives in SSA's programs
    - Work Incentives Simplification Pilot (WISP)
  - Should the focus be on something other than economic incentives:
    - Practical help in finding employment
    - Technology that assists individuals who would like to work

# A policy proposal that considers both health and economic variables: ESTR

- David Stapleton has outlined a proposal for persons 55 or older that addresses both types of variables (Employment Support for the Transition to Retirement). ESTR would provide time-limited benefits that:
  - Include wage subsidies
  - Extend unemployment benefits
  - Provide SSI for persons who cannot return to work but who are not currently eligible for SSI
- Stapleton's work is important because it acknowledges existing federal policy models
  - Trade Adjustment Assistance and Alternative Trade Adjustment Assistance programs

# Concluding Thoughts

- A paper that very carefully measures the impact of health on disability applications
- Would benefit from more refined or specific modeling of the financial incentives in DI and SSI
- Does suggest some caution in assuming disability programs are not functioning as intended (health seems to be a main driver)
- Rather than incentives, perhaps some policy focus on simplification or on practical aspects of helping the disabled work
- Future studies may find clear delineations, but the health and labor market problems of older workers are hard to disentangle
  - Programs, building on existing federal models, that focus on both health and economics may be the most realistic