

**The Benefits Trajectory and Labor Market Outcomes of Older Workers
Who Were Denied SSDI on the Basis of Work Capacity**

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As workers approach retirement, it becomes more likely that they will have experienced a health condition that limits their ability to work. The likelihood that a worker continues to work depends on the nature and severity of the health condition, the nature of the occupation and the willingness of the worker's employer to provide accommodations, and the ability of the worker to find an alternate position with the same or another company. Those unable to continue to work due to their health or functional status who have a lengthy employment history may be eligible for Social Security Disability Insurance (SSDI). SSDI cash benefits can offset some of the earnings losses from labor force exit prior to claiming Old Age and Survivors Insurance (OASI) benefits.

Yet receiving SSDI benefits after applying for them is far from certain; our findings indicate that among disabled worker applicants over the age of 50, about half are initially denied benefits. There are several reasons why applicants might be denied SSDI benefits, reflecting the staged disability determination process (Wixon and Strand 2013). Our study considers SSDI applicants denied for "work capacity" reasons. Work capacity denials occur because the disability examiner believes, after assessing the applicant's residual functional capacity, that he or she: (1) can return to his or her past job; or (2) can, given the applicant's age, education, and work experience, work at another job that exists in the U.S. economy. In making this determination, examiners do not account for the willingness of employers to hire denied applicants or for whether other types of jobs exist in their commuting area, both factors which could be particularly salient for workers approaching retirement age. Thus, it is important to understand the extent to which applicants denied for work capacity reasons ultimately return to work and the types of jobs in which they work.

We consider the post-denial benefits trajectory and employment outcomes of older SSDI applicants who are initially denied benefits for work capacity reasons.¹ We do this using the *Health and Retirement Study* (HRS) linked to Social Security Administration (SSA) records on benefit application and receipt. By linking SSA's 831 to the HRS, we identified 805 applications for SSDI disabled worker benefits that occurred after an individual was first interviewed by the HRS (a condition we needed to impose to observe characteristics prior to application).

¹ Our work is similar to the focus of recent studies by Strand and Trenkamp (2016) and SSA's Office of the Inspector General (OIG 2017), both of which relied solely on administrative data to consider the outcomes of denied applicants. The studies differed from ours in their focus; Strand and Trenkamp consider denials (across all ages) for SSDI because applicants can work in another occupation, while the OIG report considers denials across all ages for SSDI as well as SSI.

The majority of older SSDI applicants are allowed or denied benefits based on work capacity reasons (see Table 1). Among the allowed applicants, about one-third were allowed at step 3, because their impairment met or equaled the listings, while two-thirds were allowed at step 5 for work capacity reasons. Among those denied, the share was about the same, with two-thirds being denied for work capacity reasons. Being denied for being able to work in the applicant’s past job was more than twice as common as being denied for being able to work in another job (22.9 and 9.3 percent of the total, respectively). Our analysis shows that in the years prior to application, these groups differed on demographic, health, and socioeconomic measures. For example, relative to other denied applicants, those denied because they were found able to work in their past job were more likely to be unmarried women with only a high school education.

Table 1. *Initial Outcomes of SSDI Applications Filed by HRS Respondents after Their First HRS Interview*

Initial application outcome	Number (Share of total)
<i>Allowed</i>	421 (52.3%)
Medical reasons (impairment meets or equals the listings)	133 (16.5)
Medical-vocational reasons (inability to perform past job or another job)	288 (35.8)
<i>Denied</i>	384 (47.7)
Medical reasons (impairment not severe or not expected to last 12 months) ^a	125 (15.5)
Medical-vocational reasons	
Ability to perform past job	184 (22.9)
Ability to perform another job	75 (9.3)

^a The majority of denials in this group were because the impairment was not severe or not expected to last 6 months. We also included in this group a small handful of cases who failed to follow the prescribed treatment or failed to submit to a consultative exam or who provided insufficient evidence to complete the claim.
Source: Authors’ calculations using the HRS linked to SSA’s 831 file. Regulation Basis codes used by SSA to document the reason for the allowance or denial are assigned to each group following the scheme identified in Wixon and Strand (2013).

Prior to considering the extent to which denied applicants returned to work and the occupations to which they returned, we explored how many initial denials ultimately received benefits. It is unlikely that denied applicants who appeal their initial outcomes or reapply for SSDI return to work, at least in the short term, given that an inability to engage in substantial gainful activity is a requirement for eligibility. We find that a substantial share of applicants

denied on the basis of work capacity were subsequently allowed on appeal, or they reapplied and were allowed on that later application.² Just under two-thirds of all applicants initially denied for work capacity were ultimately allowed SSDI (63.6 percent of those denied for a past job and 62.7 percent of those denied for another job), compared to 31.2 percent of those denied for medical reasons. Among applicants initially denied SSDI for work capacity reasons who did not receive benefits on appeal or reapplication, we find that the majority claimed OASI prior to SSA's full retirement age.

Given that a high share of applicants in our sample ultimately appeal or reapply, it should be unsurprising that relatively few applicants denied for work capacity reasons had returned to work about a year after the initial denial. Among all applicants denied for work capacity reasons, we find that 13 percent were working about one year after the initial denial, compared to 22 percent of those denied on the basis of medical factors. Among those who were working, they had annual earnings that were substantially less than they were before application, in part reflecting many who were working part-time. It is possible that if we considered subsequent years following denial, we might have seen a higher share returning to work. Yet, because the average age at application was around 58 years, most were approaching the age at which they could claim OASI (as early as age 62 for actuarially reduced benefits), so we would not expect large increases in employment.

Our findings signal that for older SSDI applicants who initially receive a work capacity denial, most go on to receive SSDI and few return to work, at least about a year after the initial denial. The decision to return to work among older applicants approaching retirement age likely differs from that of younger applicants who have many working years remaining. Yet, remaining productive at older ages is an aspiration of many and can help improve financial security after retirement. To shed light on the types of training that might prove promising for helping older workers with disabilities to remain in the labor force, our study assesses the occupational requirements and skills used by denied applicants in their jobs before application and considers differences in those requirements and skills based on the likelihood of returning to work following denial.

² Because the 831 files only contain information on the initial decision, we linked to the Cross-Year Benefits file to identify applicants who subsequently received SSDI (meaning they must have appealed the decision and received an allowance). In cases where we saw a denied SSDI applicant with a subsequent SSDI application, we determined that applicant to have reapplied, with allowance or denial based on the initial outcome of that application or the presence of SSDI benefit receipt in the Cross-Year Benefits file.

References

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