

WORKING PAPER

Executive Summary

JANUARY 2013, WP 2013-4

CENTER *for*
RETIREMENT
RESEARCH
at BOSTON COLLEGE

THE TREND IN DISABILITY INSURANCE COVERAGE RATES AND ITS EFFECT ON SSDI CASELOADS

BY NORMA B. COE, MATTHEW S. RUTLEDGE, AND KENDREW WONG

The escalating proportion of working-age adults on the rolls of the Social Security Disability Insurance (SSDI) program has been of great concern to policymakers, and the fiscal pressures are only increasing. As a result of the rapid and continuing increase in SSDI enrollment – the fraction of adults ages 25 to 64 increased from 2.3 percent in 1989 to 4.6 percent in 2009 – the SSDI trust fund is projected to run out of funds in 2018. Numerous studies (Bound and Burkhauser (1999) and Autor and Duggan (2006) provide surveys of the literature) have attributed this growth to a variety of factors, including the business cycle (Rupp and Scott 1998; Black, Daniel, and Sanders 2002), less stringent screening for disabilities (Stapleton et al. 1998), and the Medicare benefit that is associated with SSDI (Gruber and Kubik 2002).

Another potential factor has received much less attention: the change in the SSDI coverage rate. A worker is considered “insured” only if he has accumulated enough experience, both over his career *and* in recent years, to be eligible for the program; benefits are then calculated based on his past earnings using the same progressive formula as the Social Security retirement program.

Few studies have investigated changes in the SSDI coverage rate over time. Mitchell and Phillips (2001) explore how eligible and ineligible individuals differ in personal characteristics; they find that many older individuals, especially women, are ineligible, usually due to insufficient recent work experience. Coe and Haverstick (2010) find that married women born after 1940 are significantly more likely to be SSDI-insured at age 55 than married women from previous cohorts, but not a cohort difference for men. Autor and Duggan’s (2006) back-of-the-envelope calculation suggests that increased coverage rates could be responsible for about one-sixth of the growth of women’s SSDI enrollment.

This project investigates whether increased coverage rates could have led to increases in the SSDI rolls in recent years. We first confirm an upward trend in SSDI insurance status over the last four decades. We find that coverage rates have increased dramatically for most subgroups, especially married women, workers in the service industry, and younger workers. We then examine whether obtaining SSDI coverage leads to benefit receipt soon after. Our hazard model estimates find a statistically significant jump in SSDI receipt 13 to 15 months after obtaining insured status, which is not much longer than the average waiting time between SSDI application and initial evaluation. This jump is particularly pronounced for older individuals and those who are jobless when sampled by the SIPP.

However, the increase in coverage rates occurred among groups that are the *least* likely to receive SSDI benefits, particularly married women and younger workers. While new coverage often leads to receipt for individuals, increases in coverage rates at the aggregate level have not necessarily led to the increase in the number of SSDI beneficiaries.

The analysis uses the *Survey of Income and Program Participation (SIPP) Completed Files*, which links a subset of the public-use SIPP household survey to restricted-use SSA earnings and benefits data. We first analyze trends in the coverage rate between 1970 and 2006. During that time, the coverage rate has increased from 66 percent in 1970 to just over 80 percent in 2006. The proportion of married women in our sample who are SSDI-insured grew from 45.6 percent to 72.7 percent. Unmarried women were also more likely to be covered by SSDI, while the rate of SSDI coverage for married and unmarried men was roughly constant. Service sector employees also saw an increase in coverage. Finally, all age groups are more likely to be SSDI-insured in 2006 than in 1970, but the gain was smaller for older workers.

We then estimate a hazard model, where the dependent variable is an indicator for receiving new SSDI benefits. We find that SSDI receipt increases monotonically with age and decreases monotonically with education. It is more likely for non-whites, non-Hispanics, non-workers during their SIPP sample window, and unmarried individuals of both genders, and least likely for married women. But our main focus is on a set of indicators for the number of months since obtaining SSDI coverage. We find a statistically significant jump in SSDI receipt 13 to 15 months after obtaining coverage, slightly longer than the average waiting time between application and receiving the first benefit payment. Married men have the largest jump just after one year followed by a relatively constant receipt rate, while married women see only a small, gradual increase in their receipt over the full five-year period. The trends for unmarried men and unmarried women are also generally upward, but highly nonlinear. Also, those individuals who gain coverage for SSDI benefits after reaching age 55 are much more likely to receive benefits in the subsequent five years, with an especially large jump just more than a year after obtaining coverage.

Together, these results are consistent with the hypothesis that the SSDI rolls have increased in part because of increased coverage rates. But the two findings are not conclusive evidence of a causal relationship between increased coverage rates and increased SSDI receipt. Even if the relationship is causal, this finding alone does not inform policymakers on the contribution of increased coverage rates relative to other factors that have encouraged the growth of the SSDI program. In ongoing work, we plan to examine whether the duration between coverage acquisition and SSDI receipt has changed over time, with special emphasis on those groups that have seen the most growth in coverage, like married women and younger workers. We also plan to quantify the degree to which coverage increases explain the growth in SSDI receipt by comparing the actual SSDI growth to a counterfactual of constant SSDI coverage within relevant subgroups.

The simultaneous increases in coverage and benefit receipt have an uncertain net effect on the financial state of the SSDI program. The increase in labor force participation that leads to increased coverage rates yields greater payroll tax revenue. But if participation increases only enough so that those who would have fallen just short of coverage status instead gain coverage, and SSDI awards subsequently increase, the program's finances may weaken. Future work will use the estimates of coverage increases and the dynamics of SSDI receipt with respect to obtaining coverage to calculate the net gain or loss to the program.

© 2013, Norma B. Coe, Matthew S. Rutledge, and Kendrew Wong. All rights reserved. The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Retirement Research Consortium (RRC). The opinions and conclusions expressed are solely those of the authors and do not represent the views of SSA, any agency of the federal government, the RRC, or Boston College.

CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

Hovey House, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808
phone 617.552.1762 fax 617.552.0191 crr@bc.edu crr.bc.edu