Social Security Disability Insurance: A Primer

For most U.S. workers and their families, Social Security Disability Insurance (SSDI or DI) provides protection against a key source of economic insecurity—the loss of earnings due to disability. Today, 9.3 million Americans—disabled workers, their spouses, and dependent children—rely on SSDI to replace lost wages. This primer provides an overview of the SSDI program, including who is covered, what benefits they receive, how the program is administered, and how it is financed.

Social Security pays benefits to the vast majority of elderly Americans. It also pays benefits to millions of disabled workers and their dependent family members, providing a crucial source of financial security for people who are severely limited in their ability to work because of a disabling illness or injury. Social Security Disability Insurance (SSDI) was added to Social Security in 1956. At first, SSDI was limited to workers age 50 and above, providing a pathway to early retirement for workers in poor health. In short order (in 1960), benefits were extended to younger workers, and in 1972, SSDI beneficiaries became entitled (after a 24-month waiting period) to health insurance coverage under Medicare.

SSDI has a very strict disability standard. Workers are eligible for benefits only if they are insured for DI (they have a significant and recent work history) and they have long-lasting or permanent disability that makes it impossible for them to work and earn more than a very modest amount. A waiting period is imposed; cash benefits can begin five months after the onset of a disability that prevents work. Benefits are limited (disabled workers received $1,063 per month, on average, in 2008), but they are reliable and coverage is widespread—meaning that most, though by no means all, U.S. workers will be eligible for the benefits SSDI provides should they become disabled.

At the end of 2008, 7.4 million disabled workers were receiving Social Security Disability Insurance payments, as were 1.85 million children and spouses of those workers, with total benefit payments of $106 billion, representing 17 percent of total spending in Social Security. (See Table 1 on page 2.) This brief provides an overview of the SSDI program, including how it works, who it serves, how it is administered, and how it is financed.

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Who Is Insured for Disability Benefits?

As of December 31, 2008, 154.5 million workers—over three-fourths of the U.S. workforce—are insured for disability benefits through SSDI should they become permanently disabled and unable to work and support themselves and their families.3 By comparison, only 28 percent of all private sector workers are covered by employer-sponsored long-term disability policies.4 (The majority of U.S. workers—roughly 88 percent—are covered by Workers’ Compensation, which provides cash benefits and medical care to people who suffer workplace injuries or illnesses.)3

Workers earn coverage for themselves, their dependents, and their survivors just as they do for Social Security retirement benefits, by paying Social Security taxes during their working years. To qualify for DI, workers must have significant and recent work histories. In general, a person must have worked five out of the last ten years ending in disability. Special rules make it possible for very young workers (those in their 20s) to be covered by SSDI (Box 1).

Though widespread, SSDI coverage is by no means universal. A significant proportion of men and women are not insured at midlife and beyond. Because women are more likely to move in and out of the paid workforce, women are much less likely than men to be DI-covered throughout their lives. Among 62-year-olds, 96 percent of men, but only 77 percent of women, are DI-covered (Figure 1). The gender gap is even wider at younger ages. At age 32, for example, 88 percent of men are DI-covered, compared to just 34 percent of women [not shown]. Hispanics are less likely than whites or African Americans to be DI-covered, and older workers who are in poor health or who have work disabilities are less likely than workers in good health to be covered—despite their greater need for SSDI benefits.6

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Table 1
Social Security Beneficiaries and Benefit Payments, 2008

<table>
<thead>
<tr>
<th></th>
<th>Beneficiaries</th>
<th>Percent of Total</th>
<th>Benefit Payments (in millions)</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired Workers and Dependents of Deceased Workers (OASI)</td>
<td>41.6 million</td>
<td>82</td>
<td>$509,336</td>
<td>83</td>
</tr>
<tr>
<td>Disabled Workers and Family Members (DI)</td>
<td>9.3 million</td>
<td>18</td>
<td>$106,007</td>
<td>17</td>
</tr>
<tr>
<td>Total OASDI Benefit Payments</td>
<td>50.9 million</td>
<td>100</td>
<td>$615,344</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Social Security Administration, Office of the Actuary, Trust Fund Tables (calendar year data) at www.ssa.gov/OACT/ProgData/funds.html; beneficiary data at www.ssa.gov/OACT/STATS/OASDIbenefies.html.

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Figure 1
Percent of Men and Women OASI- and DI-Insured at Age 62

Social Security Disability Insurance: A Primer

Because the rules for what workers must contribute to be “disability insured” are somewhat different from those which determine whether someone is insured for old-age benefits, an individual could, at any given time, be insured for both retirement and disability benefits, insured for retirement but not for disability, or not insured for either.8 For example, a worker could be insured for retirement benefits but not insured for DI if she had at least ten years of work but lost her DI status due to periods of illness or unemployment.9 In general, older workers are more likely to be insured for OASI than for DI. Women and men are less likely to be insured for DI at age 62 than for Social Security’s retirement benefits (OASI). (See Figure 1 on page 2). For younger workers, the reverse is true. Workers in their mid-30s and below are more likely to be insured for DI than for OASI.10

People who are not insured for SSDI and become disabled may be eligible for other public benefits, including Supplemental Security Income benefits (SSI) and OASI (Box 2).
How Is Disability Defined and Evaluated?

SSDI has a very strict definition of disability. Workers must demonstrate “an inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.” The law states that an individual’s physical and mental impairment(s) must be “. . . of such severity that he is not only unable to do his previous work but cannot, considering his age, education, and work experience, engage in any other kind of substantial gainful work which exists in the national economy, regardless of whether such work exists in the immediate area in which he lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied for work.”

Disability is evaluated using a five-step, sequential process (Box 3). In the first step, the Social Security Administration (SSA) determines whether an individual applicant meets the requirements for insured status and is not engaged in substantial work. The term “substantial gainful activity” (SGA) is used to describe a level of work activity and earnings. Work is “substantial” if it involves doing significant physical or mental activities, or a combination of both. In most cases, if a person who is not blind is working and earning more than $980 a month (net of “impairment-related work expenses”) in 2009, he or she is considered to be engaging in SGA and is not work disabled or eligible for SSDI. The earnings threshold is significantly higher for people who are blind ($1,640 in 2009).
At the second step, the existence, severity, and duration of the person’s impairment are explored. All physical and mental impairments are explored, singly and in combination. A reviewing medical consultant determines whether there is enough medical evidence to support a finding of a severe disability—one that results in a “marked” reduction in function. If there is no impairment or the impairment is not severe (does not significantly limit basic work activities), then the individual is found to be not disabled. If the impairment is severe, then the claim moves to a third step where a determination is made as to whether the impairment meets or equals the criteria of one of the medical listings published in regulations by SSA.

At the third step, the presence of an impairment that meets the criteria in the Listing of Impairments (or that is of equal severity) is usually sufficient to establish that an individual who is not working is disabled, without the need to consider the individual’s age, education, or work experience. The Listing of Impairments describes, for each major body system, impairments that are considered severe enough to prevent a person from doing any gainful activity (a stricter standard than any substantial gainful activity). The Listings serve as a screening tool to identify individuals who clearly meet the definition of disability in the Social Security Act. However, the absence of a Listing-level impairment does not mean the individual is not disabled. Rather, it merely requires the examiner to move on to the next step of the process.

If a “severe” impairment neither “meets” nor “equals” a listing but meets the 12-month duration rule, SSA assesses the individual’s residual functional capacity—what an individual can still do despite his or her impairments. At step four, a state Disability Determination Services (DDS) examiner considers whether the person has the residual functional capacity to meet the physical and mental demands of past relevant work. If the impairment does not prevent the individual from meeting the demands of past relevant work, the person is found not disabled.

Finally, if the impairment prevents the individual from performing past relevant work, it must be determined whether the impairment prevents the person making

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**Box 3**

The Five-Step Disability Determination Process

**Step 1: Work Test.** Is the individual working and earning over the substantial gainful activity amount? If yes, the application is denied. If no, the application moves to Step 2.

**Step 2: Severity Test.** Is the applicant’s condition severe enough to limit basic life activities for at least one year? If yes, the application moves to Step 3. If not, the application is denied.

**Step 3: Medical Listings Test.** Does the condition meet the Social Security Administration’s medical listings, or is the condition equal in severity to one found on the listings? If yes, benefits are awarded. If no, the application moves to Step 4.

**Step 4: Previous Work Test.** Can the applicant do the work he or she has done in the past? If yes, the application is denied. If not, the application moves to Step 5.

**Step 5: Any Work Test.** Does the applicant’s condition prevent him or her from performing any of the work that exists in the national economy? If yes, benefits are awarded. If no, the application is denied.

an adjustment to other work during the fifth, and final, step of the sequential evaluation. To be found disabled, the individual must be “not only unable to do his previous work but cannot, considering his age, education, and work experience, engage in any other kind of substantial gainful work which exists in the national economy....” The work the person can do does not have to exist in the immediate area in which he or she lives, and a specific job vacancy does not have to be available to him or her. Work in the national economy is defined in statute as work which exists in significant numbers either in the region where such individual lives or in several regions of the country.

Although SSDI is available to workers of all ages, the criteria change at age 50, when greater consideration is given to vocational factors—that is, the ability of an older, disabled worker to take a desk job after decades of more physical work. The disability determination beginning at age 50 takes into account that an individual with less than a high school education who has worked for 35 years mowing lawns and landscaping may not be able to move very easily into less physically demanding work. SSA has developed a vocational “grid” designed to minimize subjectivity and promote consistency in applying the vocational factors. The grid regulations relate age, education, and past work experience to the individual’s residual functional capacity to perform work-related physical and mental activities. (Residual functional capacity is measured in terms of the individual’s ability to do sedentary, light, medium, heavy, and very heavy work.) The grid rules are specifically designed to help older, less educated individuals by easing the standards for certain applicants. For example, under grid rule 201.04, a 55-year-old individual who can perform sedentary work, who is a high school graduate with an unskilled work background, and who does not have the skills to perform semiskilled or skilled work, would be found disabled under the grid.

**Box 4**

**The Listing of Impairments**

The Listing of Impairments describes, for each major body system, impairments that are considered severe enough to prevent a person from doing any gainful activity. The Listings are organized by 14 major body systems (e.g., musculoskeletal impairments, respiratory impairments, neurological impairments). Altogether, there are more than 100 listed impairments.

Each Listing describes a degree of severity such that an individual who is not working, and has such an impairment, is considered unable to work by reason of medical impairment. Medical documentation of these criteria can result in an allowance without consideration of the individual’s limitations (except for mental impairments). The Listings are not required by statute, “but SSA has been using them in one form or another since it first started evaluating disability claims, updating them as needed, to screen the most obviously disabled applicants.”

The Listing includes a discussion of the kinds of medical evidence that should be reviewed and how DDS examiners evaluate signs, symptoms, laboratory findings, responses to prescribed treatment, and functional limitations to establish the severity of impairments. A few listings (e.g., certain cancers, amyotrophic lateral sclerosis) are evaluated based on diagnosis alone, but most require a diagnosis and an assessment of severity. If the evidence in a case establishes the presence of all the criteria required by one of the impairment listings, then the individual “meets” the Listings.
What Is the Application Process?

Applying for SSDI benefits takes time and effort, and benefits are not always granted. Applicants must send detailed medical information as well as information on past employment. Some must undergo an exam by an independent practitioner. Compiling this information and keeping it up-to-date can be especially difficult for people who do not have a usual source of medical care (including the uninsured). Some applicants may go it alone, but many rely on lawyers or other representatives for assistance.

Both federal and state offices are involved in the eligibility determination. Disabled workers apply for benefits at a local Social Security office, where their application is screened to determine whether the worker is covered by SSDI and not working (or, if working, with earnings less than the SGA threshold). If these nonmedical eligibility criteria are met, the application is sent to a state office of DDS. The state DDS makes the initial disability determination and processes the reconsideration of claims that are denied at the first stage.

At the DDS, a state disability examiner assesses the applicant’s medical record to determine whether the applicant meets the medical (or medical-vocational) criteria for eligibility. If an applicant’s application is denied, he or she has the right to appeal that decision. There are several levels of appeal (Box 5). Many people who eventually get disability benefits are required to pursue their claims beyond the initial stage. In recent years, 58 percent of applicants denied at the initial stage went on to file at least one appeal, with half of them eventually awarded benefits.22

The first step in the appeals process is called reconsideration. If a claim is denied, an applicant has 60 days to file a request for reconsideration, which is, in effect, a case review by a different DDS examiner. If an applicant is again denied, he or she can request a hearing before an Administrative Law Judge (ALJ) in Social Security’s Office of Hearings and Appeals—again, provided the request is filed within 60 days of receiving notice of the denial. This is the first time the applicant has the opportunity for a face-to-face interview. The ALJ looks into all the issues and receives documentary evidence as well as the testimony of witnesses. The ALJ will allow the claimant, the claimant’s representative, or both to present arguments and examine witnesses.

If the applicant is denied, he or she can request the Appeals Council to review the case. The Appeals Council is the final administrative step in the SSA appeals process. An applicant denied benefits by the Appeals Council may file an action in Federal District Court within 60 days of the Appeals Council action. Those denied in District Court can continue with appellate process to U.S. Circuit Court of Appeals and the United States Supreme Court.23

<table>
<thead>
<tr>
<th>Box 5</th>
<th>Five Levels of Appeal</th>
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<tbody>
<tr>
<td>1.</td>
<td>Reconsideration</td>
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<td>2.</td>
<td>Administrative Law Judge (ALJ) hearing</td>
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<tr>
<td>3.</td>
<td>Appeals Council</td>
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<tr>
<td>4.</td>
<td>Federal District Court</td>
</tr>
<tr>
<td>5.</td>
<td>U.S. Circuit Court of Appeals</td>
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How Long Does the Application Process Take?

It can take a long time—months and even years—for a disabled worker applying for benefits to receive a final decision on the claim. Over the past decade, processing times for SSDI claims have grown to unacceptably high levels. At nearly every phase of the process, but especially at the hearings level, claims are backlogged and waiting times are growing. These problems have arisen at different points in the past, but they are especially acute right now. These failures impose severe hardships on disabled workers and their families, and they undermine the program. Adequate staff resources and stable administration are critical for protecting the rights of individuals and for assuring public support for and the fiscal integrity of the disability programs.

Just as claims vary in their complexity—some are simple and well documented, others require more lengthy evaluation—the amount of time it takes to receive a final decision varies widely, and depends partly on whether applicants decide to appeal a denial of benefits. Nevertheless, due to personnel shortages, processing times have grown significantly in recent years. In fiscal year 2008, according to SSA’s measures of processing times, applicants waited 106 days for an initial disability determination and 514 days (from the hearing request date), on average, for a decision at the hearing level. Processing times have increased steadily in recent years; the average processing time for a hearing was 415 days in 2005.

For applicants who appeal, the entire process can take two years, sometimes longer. In fact, when the Inspector General undertook an effort to determine average overall processing times (from the date of application to the date of denial or the date benefits were paid), the measured waiting times for 2008 were far longer: 131 days for an initial determination at the DDS (ranging from 16 days to a year), 279 days to completely process a reconsidered claim, and 811 days to process a claim at the hearing level (from about six months to just over four years).

These are averages and many claims and hearings are processed more quickly, but many wait times exceed the average by a very large margin. In fiscal year 2007, SSA set a goal of hearing the cases of people who had been waiting the

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**Box 6**

**Quality and Consistency of the Decision-making**

Determination of eligibility for disability benefits is an inherently difficult task. Applicants need to have a “medically determinable” impairment to receive benefits, but many other judgments must also be made before a person is found to be disabled and eligible to receive benefits. Many of the factual determinations are relatively straightforward, but others range from the difficult to the nearly impossible. A complex administrative structure is needed to ensure that federal rules are implemented in as standardized a way as possible. Throughout the disability determination process, SSA has put administrative structures and processes in place to reduce subjectivity and increase consistency in decision-making. Nevertheless, there are long-standing concerns about the accuracy, timeliness, and consistency of the decision-making process.

The high rate at which claims are approved on appeal suggests to some that decision makers at two levels (DDS and ALJ) are interpreting and applying SSA’s criteria differently. Despite efforts in the mid-1990s to better understand these differences and increase the consistency of decision making, the U.S. Government Accountability Office has concluded that more effort is needed to address consistency.
longest—more than 1,000 days—and cleared those cases. In fiscal year 2008, SSA reduced the number of hearings for cases waiting 900 days or more from more than 135,000 to fewer than 300. Nevertheless, hearings backlogs continue to grow. Because state DDS examiners deny about 86 percent of reconsideration requests, a substantial number of applicants are forced to appeal, adding to the backlogs at the appeals level.

Backlogs of pending disability claims and hearings have increased rapidly since 2000. Between fiscal year 2001 and fiscal 2008, the number of hearings pending nearly doubled, rising from 392,387 to 760,813 (Figure 2). As of December 2008, a new high-watermark had been set, with 768,540 Americans waiting to receive a decision.

A number of factors contribute to the backlog, including a large and growing workload (SSDI applications increased by 78 percent between fiscal year 1999 and fiscal 2008), a lack of personnel and management expertise, and chronic underfunding of SSA’s administrative costs. According to the chairman of the Social Security Advisory Board, “[c]hronic underfunding of core mission workloads couple with more and more unfunded mandates to support a broad array of other federal programs has pushed SSA to the tipping point.”

Social Security’s administrative costs are paid out of the Social Security Trust Funds, subject to an annual appropriation. The discretionary portion of SSA’s budget is included in the Labor, Health and Human Services, Education and Related Agencies appropriation bill. These discretionary funds allow SSA to administer OASI and DI and to provide administrative support to other programs including SSI and Medicare. All of these activities are included in the Limitation on Administrative Expenses account in the president’s budget. In every fiscal year since 1998, the Congress has appropriated administrative funding for SSA that falls short of what the commissioner of Social Security and (with the exception of 2008) the president have requested. The result is a shortfall in appropriations for SSA of more than $5 billion (Table 2).

SSA projects it can significantly reduce the hearings backlog—by 10 percent in a year—from 752,000 (the FY 2008 target) to 683,000 (the FY 2009 target) if the Congress appropriates the amount requested in the President’s budget.

In a piece of good news, in March of this year, the President signed an appropriations bill that provides $10.6 billion in administrative funding for SSA for fiscal 2009, a roughly 7 percent increase over the fiscal 2008 funding level and the largest annual increase since fiscal 2001. In addition, the President’s 2010 budget request includes $11.6 billion in funding for SSA, a 10 percent increase over the fiscal 2009 appropriation. These funding increases should help the Agency reduce the long waits experienced by applicants and assure that disability benefits are available on a timely basis to people who truly need them.
What Monthly Benefits Are Paid to Disabled Workers and Their Families?

DI provides monthly cash benefits that replace a portion of the earnings that are lost when a person can no longer work because of a disability. Benefits are based on an individual’s past earnings (up to an annual maximum), with higher replacement rates for lower wage workers (box 7). Disability payments are payable after an application is filed, and beginning five months after the onset of a work disability. Beneficiaries may receive up to 12 months of retroactive payments.

In 2007, disabled worker beneficiaries received an average monthly benefit of $1,004. [Note: This includes all disabled workers in current payment status, not just those awarded benefits in 2006.] Men’s benefits were higher, on average, than women’s—$1,125 per month compared to $865—because men typically work more years than women and earn higher wages. Older workers tend to receive higher monthly benefits than younger workers. Beneficiaries age 25 to 29 received an average monthly benefit of $654 in 2007, compared to an average benefit of $1,123 received by beneficiaries age 60 to 64) (Figure 3).
Supplements and Offsets

For some disabled workers, SSDI can be supplemented by SSI if the SSDI monthly benefit is less than the amount a disabled worker would receive under SSI ($623 per month in 2008). At the end of 2007, about 14 percent of SSDI disabled worker beneficiaries had incomes low enough to qualify for SSI. These SSDI-SSI concurrent beneficiaries received an average SSI benefit of $205 per month and an average total benefit of $715.38

SSDI payments can be reduced if a beneficiary is also receiving Workers’ Compensation payments or other publicly financed disability benefits, such as state and civil service disability benefits.39 Other income or resources do not affect the SSDI payment amount. However, private employer group long-term disability insurance plans typically are designed to coordinate with SSDI, and SSDI benefits reduce the amount paid by the private plan.40

Benefits for Family Members

In addition to monthly benefits paid to a disabled worker, SSDI benefits are also provided to dependents, subject to certain maximum family benefit limits. Benefits are paid to the disabled worker and his or her children under age 18, a spouse age 62 or older, or a spouse of any age who is caring for an eligible child (a child under age 16 or a child of any age who is disabled). Benefits also extend to survivors—widows and widowers, minor children, and disabled adult children. In 2008, the average monthly benefit for spouses of disabled workers was $285 and the average benefit for children of disabled workers was $318 (table 3). Family benefit amounts depend on family composition and cannot exceed 150 percent of the worker’s monthly benefit. For example, a family with a disabled worker, a spouse under age 65, and one or more children received an average monthly benefit of $1,745 in 2008.81
Social Security Disability Insurance: A Primer

SSDI benefits, though fairly modest for many workers, are reliable and secure. For a disabled worker with medium earnings (career-average earnings at roughly 100 percent of the national average wage index, or $37,222 in 2007), SSDI benefits replace about 43 percent of earnings. For a disabled worker with low average lifetime earnings ($16,750 in 2007), benefits replace a higher share of past earnings, about 54 percent. When benefits for dependents are included, roughly 60 percent of earnings are replaced for medium earners, 80 percent for low earners. Benefits are higher, but replacement rates are lower, for high earners (Figure 4).

For most beneficiaries, SSDI is their primary source of income (SSDI monthly cash benefits represent at least three-fourths of total income for more than half of all beneficiaries) (Figure 5). Beneficiaries with low levels of education rely even more heavily on SSDI. A small proportion of DI beneficiaries (14 percent) are also enrolled in SSI, and a similarly small proportion have income from earnings (i.e., earnings below the SGA threshold).

About a quarter of SSDI beneficiaries (23 percent) live in poor families, and more than half (52 percent) live in low-income families (with income below 200 percent of the federal poverty level). Social Security has a powerful poverty-preventing effect among nonelderly workers with disabilities. Leaving aside Social Security income, the majority of SSDI beneficiaries, 55 percent according to one estimate, have family income below the poverty line.
What Health Insurance Benefits Are Available to Disabled Workers in SSDI?

To address disabled workers’ needs for health insurance, Medicare benefits were extended to SSDI beneficiaries in 1972. People receiving SSDI benefits are eligible for the full range of benefits that Medicare provides—hospital care, physician services, prescription drugs—but coverage begins only after a two-year waiting period. There are a few exceptions to this waiting period. Individuals who receive a diagnosis of end stage renal disease (ESRD) are automatically entitled to Medicare without having to endure a two-year wait, as are individuals diagnosed with amyotrophic lateral sclerosis (ALS). Approximately 1.8 million SSDI beneficiaries were in the waiting period as of December 2007.48

Health insurance coverage in the waiting period. Despite their obvious need for health care, a significant share of SSDI beneficiaries in the waiting period—roughly a quarter to a third—are uninsured.49 (Table 4) Many disabled workers are uninsured when they apply for SSDI and remain uninsured until Medicare begins.50 A sizable share of disabled workers in the waiting period (over a third) are enrolled in Medicaid, the federal-state health insurance program for poor and low-income Americans. SSDI beneficiaries who are also enrolled in SSI are, in most states, eligible for Medicaid. Others may become eligible for Medicaid if their medical expenditures are very high (they qualify under Medicaid’s “medically needy” rules).

A significant share of SSDI beneficiaries in the waiting period (nearly half) are covered by employer plans (e.g., their own former employer or a spouse’s employer). Under COBRA rules, employers offering health insurance plans are required to offer disabled workers the option to continue their health insurance coverage. Special COBRA provisions were designed to provide a source of coverage to disabled individuals waiting for Medicare coverage to begin.51 (See Box 8 on page 14.) A small proportion may purchase private health insurance coverage on their own.

<table>
<thead>
<tr>
<th>Table 4</th>
<th>Health Insurance Coverage of SSDI Beneficiaries in the Waiting Period for Medicare, 2004</th>
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</thead>
<tbody>
<tr>
<td>Uninsured</td>
<td>23%</td>
</tr>
<tr>
<td>Any Private or Public Health Insurance Coverage</td>
<td>77%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>37%</td>
</tr>
<tr>
<td>Employer-Sponsored Coverage</td>
<td>50%</td>
</tr>
</tbody>
</table>


Note: Data from the 2004 SIPP linked to SSA administrative data. Since SSDI beneficiaries can have coverage from multiple sources, the estimate for any source of health coverage exceeds the sum of the share with Medicaid and the share with employer coverage.

Health insurance coverage after the waiting period. SSDI beneficiaries who live through the 24-waiting period are entitled to Medicare. They are eligible for Part A (which covers hospital and post-acute care services), and have the option to enroll in Part B (which covers physician services) and Part D (prescription drugs) or in Medicare Advantage (a managed care plan, Part C). (Part A is premium free, but there is a monthly premium for both Parts B and D of Medicare and, depending on the plan, for Part C.) For previously uninsured beneficiaries, and for those paying hefty premiums for COBRA coverage or individually purchased insurance, Medicare is a lifeline that substantially improves the affordability of care, access to care, and health. However, because Medicare has significant cost-
sharing requirements (premiums, deductibles, and cost sharing), most beneficiaries need supplemental health insurance coverage to fill Medicare’s gaps.

Most disabled worker beneficiaries in Medicare have public or private coverage that helps to fill Medicare’s gaps. By the time they are enrolled in Medicare, a large proportion of SSDI beneficiaries have Medicaid (42 percent), and rates of coverage through employers are low (only 20 percent have health coverage through an employer). A significant proportion (22 percent), however, are enrolled in Medicare only—leaving them exposed to high out-of-pocket costs52 (Figure 6).

SSDI beneficiaries keep their Medicare coverage for as long as they remain disabled. In addition, special provisions allow beneficiaries who return to work to keep their Medicare coverage for up to 8.5 years. When Medicare entitlement ends because of an individual’s work activity, a worker can purchase (or “buy into”) Medicare, but only if he or she remains medically disabled.53

![Figure 6](image_url)

**Figure 6**
Supplemental Health Insurance Coverage Among SSDI Beneficiaries with Medicare, 2006

How Long Do Beneficiaries Receive Disability Insurance Benefits?

Beneficiaries receive inflation-protected benefits as long as they remain disabled. SSDI ends—and benefits are automatically converted to retired-worker benefits—when the disabled worker reaches the full retirement age (currently 66 years). When a disabled worker dies, eligible family members become eligible for Social Security’s survivor benefits. To determine whether an individual remains disabled, the Social Security Administration conducts periodic “continuing disability reviews” (CDRs). SSA collects information from beneficiaries which is sent to the state DDS for review. How often a beneficiary’s medical condition or disability is reviewed depends on how severe it is and the likelihood that it will improve. (If medical improvement is expected, a review is scheduled every 6 to 18 months, if medical improvement is possible, a review is scheduled every three years, and if medical improvement is not expected, a review is set every seven years.) Evidence of significant work activity can also trigger a review. Beneficiaries who have had a medical recovery or who have successfully returned to work after a period of disability are removed from the disability rolls, though beneficiaries have a right to appeal a determination that would cause them to lose their SSDI benefit.

Relatively few people leave the DI program because they return to work or because of a determination of medical improvement. Historically, less than 3 percent of any enrollment cohort leaves the rolls because of work, and less than 0.5 percent of all beneficiaries on the rolls at a point in time eventually leave because of work.54

Among those whose benefits were terminated in 2007, most left the DI rolls either because they aged into Social Security’s retirement benefits (47 percent in 2007) or died (40 percent). In 2007, roughly 54,000 beneficiaries (10 percent of those whose SSDI benefits ended) were terminated because of medical recovery (20,592) or work above the substantial gainful activity level (33,381) (Figure 7).

What Supports Are Available for Beneficiaries Who Want to Return to Work?

In addition to providing reliable benefits to people who cannot work, SSDI provides incentives and assistance for beneficiaries who may be able to return to work (Box 9). In SSDI, benefits continue as long as a person remains disabled and has earnings, net of impairment-related work expenses, below the SGA level. (Work expenses related to a beneficiary’s impairment can be subtracted from earnings.)
The law also provides a 45-month period for disabled beneficiaries to test their ability to work without losing their entitlement to benefits. Disabled workers can receive full benefits during a “trial work period” of up to nine months. After the trial work period ends, beneficiaries can receive SSDI benefits for an additional 36 months (an “extended period of eligibility”), whenever their monthly earnings are below the SGA level.

Medicare coverage continues for 102 months once work activity begins as long as workers remain disabled under SSA’s definition. When Medicare entitlement ends because of work activity, a worker who is still medically disabled may purchase Medicare coverage. To buy in to Part A, the premium in 2008 is $423.00 per month; for Part B, it is $96.40 per month. Some low-income disabled workers may qualify for assistance with these costs.

The Ticket to Work and Work Incentives Improvement Act of 1999 (P.L. 106-170) expanded opportunities for people with disabilities who want to work, in part by extending Medicare coverage. Before the act was passed, people with disabilities who returned to work lost their Medicare benefits after four years. As of October 1, 2000, premium-free Part A Medicare coverage is available for an additional 4½ years (54 months) beyond the previous 48 months of extended Medicare for SSDI beneficiaries who work. These provisions are designed to encourage work for SSDI beneficiaries who may be able to return to work, but need the security and stability Medicare’s coverage provides.

The goal of the Ticket to Work and Self-Sufficiency Program is to increase the level and mix of employment support services available to disabled worker beneficiaries, enhancing their employment opportunities and leading more beneficiaries to return to work and self-sufficiency. Beneficiaries receive “tickets,” or vouchers, for employment services, case management, vocational rehabilitation (VR), and support services under an individual work plan from a provider of their choice, including state VR agencies.

Although research suggests that there is potential demand for employment and employment-related services among Social Security disability beneficiaries, the response from providers has been anemic. In the first year of the program (2002), there was a slight increase in beneficiaries’ use of employment services, but little impact on their employment and earnings and no detectable increase in exits from the program. SSA revised the program regulations in May 2008 with the goal of improving overall effectiveness of the program, “significantly enhancing beneficiary choice and improving the likelihood that beneficiaries would receive the most effective support.”

SSDI provides incentives and important supports for people who may be able to return to work, but it does not provide early intervention or assistance for people with what are or could be short-term or partial disabilities. A handful of states do have mandatory, publicly financed short-term disability programs.

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**Box 9**

**SSDI Work Incentives and Supports**

- Trial work period
- Extended period of eligibility
- Continuation of Medicare coverage (and subsequent Medicare buy-in option)
- Ticket to Work and Work Incentives Program
Who Applies for and Receives Benefits?

Social Security pays benefits to the vast majority (91 percent) of Americans over age 65. However, because there is a relatively small risk of work disability in the working-age population (and because of SSDI’s strict eligibility standards), only a tiny fraction—about one-half of 1 percent—of the DI-insured population is awarded benefits in any given year.

In 2007, 4.7 percent of the DI-insured population (7.1 million out of 152.3 million) was receiving SSDI benefits. In 2007, 804,787 disabled workers were awarded benefits. Fifty-three percent of those awards were to men, 47% to women. The share of awards made to women has increased steadily over time, reflecting the rise in women’s labor force participation and DI-insured status. The average age of disabled workers awarded benefits in 2007 was about 49 (compared to 55 in 1960). About 42 percent of awards were made to workers in their 50s, 15 percent to workers in their 60s, but a significant proportion of awards (43 percent) were made to younger workers (Figure 8).

SSDI benefits are awarded to beneficiaries with a wide range of physical and mental impairments. People with diseases of the musculoskeletal system and connective tissue accounted for 29 percent of awards in 2007, followed by mental disorders (23 percent), circulatory problems (11 percent), neoplasms (10 percent), and diseases of the nervous system and sense organs (8 percent). The remaining 19 percent of awardees had other impairments.

Not everyone who meets the medical criteria for SSDI applies for benefits (or appeals an initial denial). Education, occupation, and family factors affect an individual’s ability to work with a physical or mental disability. Research on older workers, for example, shows that demographic, social, and health characteristics are strongly associated with probability of applying for benefits in later life. Compared to nonapplicants, people with disabilities who apply for SSDI are in significantly worse health, have less education, are poorer, have worse labor market prospects, are less likely to be married, and are more likely to be black.

The complexity and length of the disability determination process likely discourages many disabled workers from applying, some of whom are likely to be eligible for benefits. For those who apply, the determination process also likely denies benefits to many people with disabilities who have a significant need for support. Older disabled workers have the option of bypassing the SSDI application process, claiming (at age 62) permanently reduced early retirement benefits in Social Security. The SSA generally advises these older disabled workers to take an early retirement benefit—a benefit that is conferred more or less automatically—and also apply for SSDI.
What Are the Enrollment and Expenditure Trends in SSDI?

Between 1990 and 2007, real (inflation-adjusted) SSDI expenditures more than doubled, rising from $40.6 billion to $98.8 billion. Despite this growth, spending on SSDI is fairly modest, representing about 3.5 percent of the federal budget and seven-tenths of 1 percent of the nation’s gross domestic product (GDP) in 2007. SSDI has increased as a share of GDP, and the Social Security actuaries project that SSDI costs will grow over the next two decades from 0.71 percent of GDP in 2007 to 0.80 percent in 2025 and will decline after that (Figure 9).

Recent and projected increases in program expenditures are mostly due to increases in the number of beneficiaries served by the program, and, to a much smaller degree, increases in the average benefits paid. Following a period of retrenchment in the 1980s, awards and enrollments grew rapidly in the early to mid-1990s and more slowly, but still steadily, over the next decade. Between 1990 and 2007, the number of disabled workers receiving benefits more than doubled, rising from 3 million in 1990 to 7.1 million in 2007.

As the insured population has grown larger and older, awards to disabled workers have increased (467,977 disabled workers were awarded benefits in 1990; 804,787 were awarded benefits in 2007). At the same time, these workers tend to stay in the program longer (because they are living longer, because there has been a relative increase in awards at younger ages, and because the age at which SSDI benefits are converted to retirement benefits is gradually being increased (to 67)). As a result, the share of the DI-insured population that is receiving benefits has increased, rising from 2.5 percent in 1990 to 4.7 percent in 2007.

Much of the recent growth, however, is attributable to population aging. When changes in the age-sex composition of the population are taken into account, disability rates are shown to be increasing, but at a much more modest rate (Figure 10).

How Is SSDI Financed?

Social Security is designed to be self-financing. Benefits are paid out of two separate trust funds, one for OASI and one for DI, funded primarily by payroll taxes. The separate trust fund for DI, which dates from the inception of the program, is designed “to ensure fiscal
accountability” of DI separate from OASI.\textsuperscript{64}

The Social Security payroll tax is 12.4 percent on earnings up to a taxable maximum ($102,000 in 2008). Of the 12.4 percent, 10.6 percent is paid to the OASI trust fund, and 1.8 percent is paid to the DI trust fund. In addition to these payroll tax contributions, the DI trust fund receives some revenues from the taxation of Social Security benefits. Upper income Social Security beneficiaries pay income taxes on part of their Social Security benefits, and some of this income-tax revenue is dedicated to the Social Security trust funds.\textsuperscript{65}

Interest earned on accumulated trust fund reserves is a third source of income. The combined revenues are invested in nonmarketable government bonds which earned an effective interest rate of 5.25 percent in 2007.\textsuperscript{66} Total income for the DI trust fund was $109.9 billion in 2007: $95.2 billion from payroll taxes, $1.4 billion from taxation of benefits, and $13.2 billion from interest income. Total expenditures from the fund were $98.8 billion, including benefit payments of $95.9 billion and administrative costs of $2.5 billion.\textsuperscript{67}

Currently, Social Security is in surplus. Income exceeds outlays in the combined OASDI funds, and trust fund balances are growing. Growth in OASDI trust fund balance is projected to continue for the next 17 years, but the Social Security actuaries project that, beginning in 2025, revenues will fall somewhat short of what is needed, and the trust fund will be drawn down to make scheduled benefit payments. The actuaries project that the combined OASDI surplus will be depleted in 2041 (Figure 11). The projected exhaustion date for the DI trust fund comes sooner than the exhaustion date for the OASI trust fund (which, under intermediate assumptions, is 2042).

Although income exceeds outlays and DI trust fund balances are growing (Figure 12), the Social Security actuaries project, under their “intermediate” or best estimate, that the costs of the DI program will exceed income, including interest, in 2012. Then, the DI trust fund begins decreasing steadily until it reaches its projected exhaustion date, roughly three decades from now, in 2025.\textsuperscript{68}

These actuarial projections are subject to a considerable amount of uncertainty. The actuaries’ “low cost” projection paints a far rosier picture of the financial condition of the DI trust fund—with assets exceeding annual expenditures by three- to fourfold over the entire 75-year projection.
window. Under the high cost, or most pessimistic, assumptions, the DI trust fund is exhausted by 2017.69

One option for addressing a near-term shortfall in DI (as is projected under the “intermediate” assumptions) would be to reallocate a portion of OASI taxes to DI. Legislation would be needed to accomplish that, but, historically, when one of the two programs has near-term financial problems, the Congress has borrowed from or reallocated taxes from the other program.70 In 1992, the DI trust fund went into negative cash flow and was projected to become insolvent in 1995. To alleviate this problem, Congress enacted the Social Security Domestic Employment Reform Act of 1994 (P.L. 103-387), which reallocated a portion of OASI taxes to the DI trust fund, effective retroactively.71

Getting to a long-run solution on SSDI financing will be part of the larger discussion of—and search for solutions to—the long-run solvency problem in Social Security as a whole. Policymakers will need to decide how to close the modest gap between payroll tax revenues and benefit payments, but the projected shortfall is not so large that it cannot be closed with relatively modest adjustments. 72

Future revenues may be inadequate to pay the full amount of scheduled benefits, but it is projected that they will be adequate to pay most of those benefits—roughly 78 percent in 2042 and beyond. Future Social Security beneficiaries will receive larger (nominal) benefits than current beneficiaries do.73 Whether and how future SSDI beneficiaries are affected by reforms designed to achieve long-run solvency will depend on the choices made by policymakers.

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NOTES

1 The SSDI waiting period is five consecutive full calendar months beginning with the earliest full calendar month throughout which the worker satisfied both the definition of disability and the disability insured requirements. The waiting period is waived for individuals who had a prior period of disability, which ended within five years of the current period of disability. www.socialsecurity.gov/OACT/NOTES/s2000s.html; Tim Zayatz, “SSDI Program Worker Experience,” Actuarial Study No. 188, February 2006.


4 Private insurance programs also provide cash benefits to replace wages in the event that a worker is disabled and unable to work. Private disability insurance typically fills in short-term gaps in work and wages when workers suffer

5 In 2000, 87.5 percent of all workers and 93.9 percent of wage and salary workers were covered. "Worker’s Compensation Coverage by State," Data Fact Sheet No. 1, National Academy of Social Insurance, October 2002. www.nasi.org/usr_doc/WC_Coverage_by_State.pdf.


7 Much of this information is based on the discussion in *Background Material and Data on Programs Within the Jurisdiction of the House Committee on Ways and Means, 2004* (also known as The Green Book), Section 1 “Social Security: The Old-Age, Survivors, and Disability Insurance (OASDI) Programs,” pp. 14 to 24.


11 $674 is the maximum monthly benefit amount for individuals living independently; $1,011 is the maximum for an eligible couple. These amounts are maximum benefits; the benefit is reduced by a dollar for each dollar of countable income. “SSI Federal Payment Amounts for 2009.” www.ssa.gov/OACT/COLA/SSI.html.


15 In 1965, the definition was changed, easing the strictness of the duration requirement. Impairments were no longer required to “be of long-continued and indefinite duration.” Rather, the impairment only had to last or be expected to last for 12 months. See page 48 in *Improving the Social Security Disability Decision Process*, National Academies Press, 2007. www.nap.edu/catalog.php?record_id=11859#toc.


18 At this stage in the adjudication process, because of a court decision and subsequent administrative and legislative ratification of this decision, the burden of proof switches to the government to show that an individual can, considering her impairment, age, education and work experience, engage in some other kind of SGA that exists in the national economy. See pages 28–29 in House Committee on Ways and Means, 2004 Green Book, Section 1, “Social Security: the Old-Age, Survivors, and Disability Insurance (OASDI) Programs,” pp. 1–27, at http://waysandmeans.house.gov/media/pdf/greenbook2003/Section1.pdf.

19 The adult listings can be found at www.ssa.gov/disability/professionals/bluebook/AdultListings.htm. There are separate and somewhat different listings for children applying for SSI, which can be found at www.ssa.gov/disability/professionals/bluebook/ChildhoodListings.htm. A child under age 18 will be considered disabled if he or she has a medically determinable physical or mental impairment or combination of impairments that causes marked and severe functional limitations, and that can be expected to cause death or that has lasted or can be expected to last for a continuous period of not less than 12 months.

20 House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the House Committee on Ways and Means, 2004*, Section 1, “Social Security: the Old-Age, Survivors, and Disability Insurance (OASDI) Programs,” pp. 1–27, at
Recently, SSA asked the Institute of Medicine to review and recommend improvements in its Listing of Impairments. The IOM concluded that SSA should continue to use the current Listings as a screening test in its disability decision process, but should increase their value and utility. See John D. Stobo, Michael McGeeary, and David K. Barnes, eds., *Improving the Social Security Decision Process*, Committee on Improving the Disability Decision Process: SSA’s Listing of Impairments and Agency Access to Medical Expertise, Institute of Medicine of the National Academy of Sciences, National Academies Press, 2007. www.nap.edu/catalog.php?record_id=11859.


See “Commissioner’s Broadcast, March 11, 2009” at ssa.gov/legislation/FY09Appropriation.pdf


Green Book, 2004, section 1, page 1–24. SSDI payments are reduced by the amount, if any, that the total monthly benefits payable under the public benefit programs exceed 80 percent of the average current earnings before the worker became disabled. The combined payments are never less than total amount of DI benefits payable before the reduction and the original amount of benefits subject to reduction is re-determined to reflect changes in average wage levels every three years.

Social Security Disability Insurance: A Primer

For SSDI, the family maximum benefit payable on the wage earner’s Social Security earnings record is one and a half times the wage earner’s benefit. The wage earner always receives his or her own benefit, and dependents’ benefits can be no more than 50 percent of the worker’s benefit. Since each eligible dependent is entitled to up to 50 percent of the wage earner’s benefit, the disability benefit family maximum is reached with even one eligible dependent. Whenever one dependent becomes ineligible, the amount payable is redistributed among the remaining eligible dependents.


43 DeCesaro and Hemmeter.

44 DeCesaro and Hemmeter.


47 People with ESRD or kidney failure are eligible for Medicare after three months and people with ALS are eligible for Medicare in the first month they are eligible for SSDI, as are people who have received a kidney transplant. Julie M. Whittaker, Social Security Disability Insurance (SSDI) and Medicare: The 24-Month Waiting Period for SSDI beneficiaries under Age 65, CRS Report for Congress, July 14, 2005. http://digital.library.unt.edu/govdocs/crs/permalink/meta-crs-7749:1.

53 People with ESRD or kidney failure are eligible for Medicare after three months and people with ALS are eligible for Medicare in the first month they are eligible for SSDI, as are people who have received a kidney transplant. Julie M. Whittaker, Social Security Disability Insurance (SSDI) and Medicare: The 24-Month Waiting Period for SSDI beneficiaries under Age 65, CRS Report for Congress, July 14, 2005. http://digital.library.unt.edu/govdocs/crs/permalink/meta-crs-7749:1.


50 Weathers and DeCesaro.


58 DI Disabled Worker Incidence Rates are reported by the Trustees, at
www.socialsecurity.gov/OACT/TR/TR08/LD_figVC3.html.


65 Higher income beneficiaries (about the top 20 percent currently) pay taxes on their Social Security benefits. In general, if a married beneficiary has adjusted gross income (including 50 percent of their Social Security benefits) exceeding $32,000 ($25,000 for single persons), then the lesser of 50 percent of Social Security benefits or 50 percent of the income above this amount is subject to taxation. For a married beneficiary with income above $44,000 ($34,000 for single persons), an additional amount equal to 85 percent of income above this amount is included in taxable income, up to a maximum of 85 percent of Social Security benefits subject to taxation.

66 Social Security Administration, “Trust Fund FAQs” at www.ssa.gov/OACT/ProgData/fundFAQ.html#n3.


