FEDERAL RESERVE BANK OF MINNEAPOLIS

JANUARY 2015

fedgazette

Regional Business & Economics Newspaper

minneapolisfed.org

PHOTO BY rau+barber

Mark Kennebeck, an SSDI recepient, would like to work full time, like others in this Minneapolis skyway, but is restricted by limits on earnings.

Disability and work: Challenge of incentives

More working-age adults are leaving the workforce because of disability, owing in part to demographics, the economy and changes in program eligibility

BY DULGUUN BATBOLD
Research Analyst

RONALD A. WIRTZ
Editor

Talk to Mark Kennebeck for two minutes, and you can't help but notice his outgoing nature. "The thing I have going for me, I think, is my personality. I'm real outgoing. I'm likable, and I love dealing with people."

Kennebeck, who has a physical disability, leveraged that personality into a career milestone. After several security jobs in his early adult years, he landed a job at Best Buy, starting in the warehouse stocking shelves. Before long, he was offered a sales job, "and at the time, there was no one with a disability on the floor at the store where I worked," he said. "I was good, and it was awesome. I was a breakthrough person. I broke the barrier to people [with a disability] being on the floor in the store." Working part time, things went so well for Kennebeck that "it got to the point where they wanted me working [full time] on a constant basis."

Continued on page 2

More on Disability and Work ...

Follow the *fedgazette* online ...
minneapolisfed.org
fedgazette Roundup blog
Twitter
@fedgazette
@RonWirtz

Disability and work from page 1

The Quick Take

Enrollment and spending in two major federal working-age disability programs have been rising nationwide and in the Ninth District since the 1980s, with growth accelerating significantly since 2000. A number of factors are thought to be behind the steady rise in disability beneficiaries among working-age adults, including shifting demographics, changes in program eligibility, fallout from recessions, and low termination rates that stem from tight caps on work earnings and the desire of many recipients to keep critical health care coverage.

While that might seem like a good thing, it presented Kennebeck with a difficult choice. He has Apert syndrome, a genetic disorder characterized by the premature fusion of certain skull bones, which affects the shape of the head and face and also results in fused (or webbed) fingers and toes. The disability qualified him for benefits through the Social Security Disability Insurance program, including a cash stipend and health insurance via Medicare. He called SSDI "a lifesaver," and he has been receiving benefits for about the past decade and a half. "If it wasn't for SSDI, I'd be living in a cardboard box and eating ramen noodles every day."

Working part time—in all of his jobs—Kennebeck has depended heavily on Medicare for medications and other expensive care to help manage his disability. Working full time with Best Buy would have brought health care benefits, but most employer plans are not as comprehensive or affordable as Medicare. SSDI also limits the amount of monthly income—$1,090 this year—that can be earned before losing the cash stipend and Medicare health care benefits entirely. Working full time would have put him over that amount, and once off SSDI, "it's a pain in the butt to get back on," Kennebeck said.

Kennebeck left Best Buy in 2012, after eight years, and now works part time as a personal care assistant for an individual with more limiting disabilities, ever vigilant about the amount of work he puts in.

"I love it, but I've got to keep [SSDI] in mind because I can't make over $1,000 a month, which frustrates the hell out of me because if you make over a thousand bucks a month, you're off," he said. "And for someone like me, I need [SSDI]."

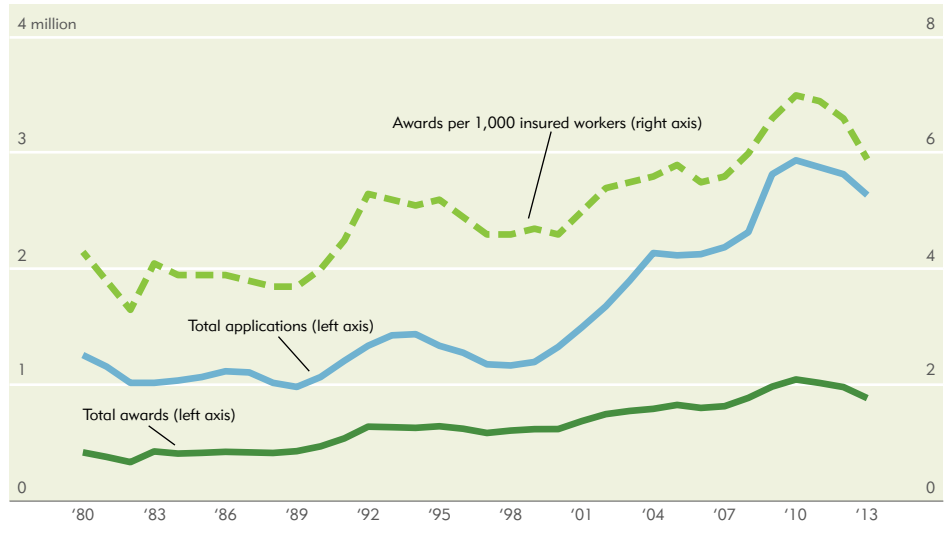
Like Kennebeck, millions of people with disabilities are well-served by and, indeed, saved by, federal disability programs. However, Kennebeck's story suggests that those with disabilities who want to work can be frustrated by the rules and guidelines governing working.

The federal disability programs—SSDI, as well as Supplemental Security Income (SSI)—are also coming under increased scrutiny because their rolls, and related public expenditures, have increased rapidly over the past 30 years.

Chart 1

Disability rising in the U.S.

Annual SSDI applications, awards and award rates



Source: Social Security Administration

The reasons for this increase are both simple and complicated. Changing workplace demographics—like the rising age of workers—are behind much of the enrollment increase. But over the years, changes in eligibility rules and the economic downturns have also induced more disability beneficiaries.

Once on disability, few working-age recipients ever leave the program, even those with considerable capacity for work. This stems, in part, from rules that cap allowable work earnings by disability recipients, the violation of which results in total loss of cash and, even more important, critical health care benefits. This one-way door into federal disability programs has shrunk the available labor pool and seems to be limiting the work lives of those who are capable—and often desirous—of more work.

The big picture

Disability is often viewed narrowly, as something that is present at birth and developmental in nature, like Down or Apert syndromes. A broader perspective is that disability is a multidimensional phenomenon involving a wide range of disorders that influence physical and mental capacity, and whose onset can come at any time during a person's life.

Some live with life-long disabilities—like blindness for Walter Waranka, an employment counselor at Lifetrack Resources, a nonprofit in St. Paul, Minn., that offers a variety of services to individuals and families, including job counseling and placement for those with disabilities.

But so-called developmental disabilities like congenital blindness are but one of many forms of disability, Waranka said. "Then there's the group who join at any particular time in their life through multiple reasons—through an accident, like diving in the pool and paralyzing themselves, or working in modern work environments and getting carpal tunnel [syndrome] to those who may lift something wrong on the job" and suffer a debilitating back injury, Waranka said. There are also those who suffer no physical malady, but struggle with mental illness—something Waranka specializes in professionally. This covers a multitude of conditions, including anxiety, mood disorders like depression and bipolar illness, psychosis and post-traumatic stress disorder.

Congress decided in 1956, with the creation of SSDI, that workers with a disorder that prevents gainful employment should receive some income support. Further help for disabled people came in the early 1970s with the creation of SSI for the very poor, most of whom qualify as a result of disability (see sidebar on page 3 for descriptions of both programs).

Both programs have experienced significant growth in applications and final awards, starting in the 1980s and continuing every decade. From 2000 to 2013, annual applications for SSDI nationwide doubled, according to the Social Security Administration (SSA) (see Chart 1). Annual awards rose by almost 43 percent over the same period. These rates include a drop in both measures in recent years.

As a share of insured workers (those

fedgazette

FEDERAL RESERVE BANK OF MINNEAPOLIS
Regional Business & Economics Newspaper

ISSN 1045-3334

Subscriptions are available without charge. Back issues are available on the Web. Articles may be reprinted if the source is credited and Public Affairs is provided with copies. Permission to photocopy is unrestricted. Send correspondence to Public Affairs, Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN, 55480-0291; (612) 204-5255.

E-mail: letters@mpls.frb.org
Internet: minneapolisfed.org

One of the Minneapolis Fed's congressionally mandated responsibilities is to gather information on the Ninth District economy. The fedgazette is published quarterly to share that information with the district, which includes Montana, North and South Dakota, Minnesota, northwestern Wisconsin and the Upper Peninsula of Michigan.

The opinions expressed in the fedgazette are expressly those of the authors or of attributed sources and are not intended to represent a formal position of this bank or the Federal Reserve System.

EXECUTIVE EDITOR Kei-Mu Yi
SENIOR EDITOR David Fettig
EDITOR Ronald A. Wirtz
MANAGING EDITOR Jenni C. Schoppers
REGIONAL ECONOMIST Tobias Madden
ECONOMISTS Rob Grunewald, Joe Mahon
SENIOR WRITER Phil Davies
GRAPHIC DESIGNERS John Biasi, Lori Korte, Mark Shafer

A rising disability rate ... has created a public perception with "two extremes." Individuals are either "all cheaters, or they are all incapable of work. Neither is true." ... Disabled people have a wide range of limitations and capabilities. "They are a very heterogeneous pool," but treated as a very homogeneous one.

—Mary Daly

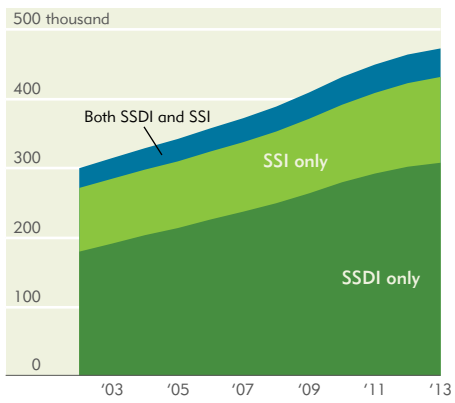
PHOTO BY rau+barber

Kennebeck left Best Buy in 2012, after eight years, and now works three days a week as a personal care assistant for Scott Engstrom (left).

Chart 2

Disability climbing in Ninth District*

Working-age disability recipients (ages 18 to 64)



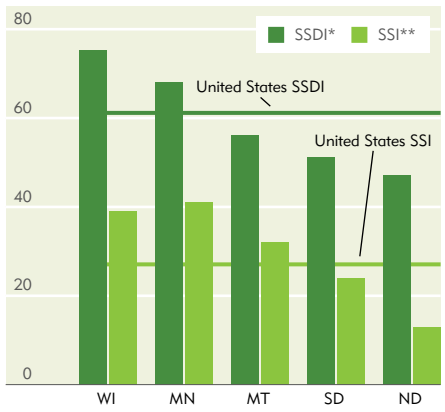
* Includes Minnesota, Montana, North Dakota, South Dakota and Wisconsin

Source: Estimates based on Social Security Administration data

Chart 3

More growth in SSDI than SSI

Percent increase in beneficiaries, Ninth District states, 2002 to 2013



* Workers only
** Recipients ages 18 to 64

Source: Social Security Administration

contributing payroll taxes to Social Security), the current rate of SSDI awards is about 50 percent higher than levels in the 1980s. With comparatively low termination rates from the program (more on this later), total workers receiving SSDI almost doubled from 5 million in 2000 to almost 9 million in 2013. Another 2 million receive benefits as the spouses and children of workers with disabilities.

Applications and awards for SSI have also climbed, though at a somewhat lower trajectory. Nevertheless, total disabled recipients nationwide rose from 5.2 million in 2000 to 7.1 million in 2013.

As a share of the labor force, SSDI and SSI enrollments are smaller in the Ninth District than in the nation as a whole (see back page map for SSDI comparison). Still, district states are seeing similar enrollment trends in both programs (see Charts 2 and 3; detailed, state-level data go back only to 2002). From 2002 to 2013, SSDI worker beneficiaries in district states increased by 68 percent compared with 61 percent nationally. Wisconsin has seen the strongest increase in SSDI, at almost 80 percent. North Dakota saw the smallest increase (almost 50 percent), including a small—and virtually unprecedented—decrease in worker recipients in 2013.

SSI enrollment in Ninth District states grew by 37 percent over the same period, with Minnesota, Montana and Wisconsin all seeing faster growth in recipients than the national rate of 27 percent, while the Dakotas saw slower growth.

As enrollment has risen, so has the ex-

Continued on page 4

The basics: SSDI and SSI

The nation's two largest long-term disability programs are Social Security Disability Insurance and Supplemental Security Income, both of which are administered by the Social Security Administration.

Social Security Disability Insurance is part of the Old-Age, Survivors and Disability Insurance (OASDI) program administered by the SSA, the same program that funds retirement benefits for seniors. SSDI benefits are funded by worker contributions to Social Security; of the 12.4 percent payroll tax paid by workers and employers, about 15 percent is paid to the Disability Insurance Trust Fund (the remainder goes to the trust fund for old-age retirement benefits).

To qualify for SSDI, individuals must be unable to engage in any "substantial gainful activity" due to a medically verified physical or mental impairment that is expected to result in death or persist at least 12 months. Applicants must also have worked in a job that contributed to Social Security for roughly a quarter of their adult lives before they became disabled and have worked at least five of the past 10 years before the onset of disability. In 2014, there were 151 million workers who in principle could qualify for SSDI.

Income stipends are based on lifetime earnings (similar to old-age retirement benefits). The average SSDI benefit is $1,150 monthly; virtually all enrollees receive less than $2,500 per month. SSDI beneficiaries also qualify for Medicare coverage after a two-year waiting period. Both cash and Medicare benefits continue unless the beneficiary earns too much income, recovers from the disability, dies or reaches full retirement age and transfers to Social Security retirement.

Supplemental Security Income is a need-based program that provides a flat monthly cash benefit to aged, blind and disabled individuals with limited income and assets. About 90 percent of SSI recipients qualify on the basis of disability.

Qualifying for SSI is similar to SSDI, except that there is no prior work or contribution requirement. Individual cash stipends for 2015 are $733 a month, funded by federal income and other taxes. In most states, SSI recipients are also immediately eligible for Medicaid, the joint federal and state health care program for the poor. Cash and Medicaid benefits continue unless the recipient earns too much money, dies or experiences a medical recovery.

An individual may receive SSI and SSDI if he or she is both poor and has a limited work history that provides a minimal SSDI cash benefit. In 2013, this equaled about 9 percent of beneficiaries (about 41,000 recipients) in the Ninth District. The monthly maximum combined cash benefit is only marginally higher ($753) than the full SSI cash stipend because SSDI benefits offset those from SSI on a dollar-for-dollar basis after the first $20. A more significant reason to apply for both SSI and SSDI is the immediate availability of health care with SSI (via Medicaid), which gives enrollees coverage during the two-year SSDI waiting period for Medicare coverage, which is widely seen as superior.

When SSI recipients reach full retirement age, any SSDI benefits are transitioned to old-age benefits, and all recipients move from Medicaid to Medicare.

—Ronald A. Wirtz

A subtle dichotomy has evolved in the disabled population. Those with disabilities sustained early in life are often given help to get *into* the workforce, at least on a limited basis. But those incurring a disability at any point during their working-age years—almost regardless of type or severity—receive benefits only if they get *out* of the workplace.

Disability and work from page 3

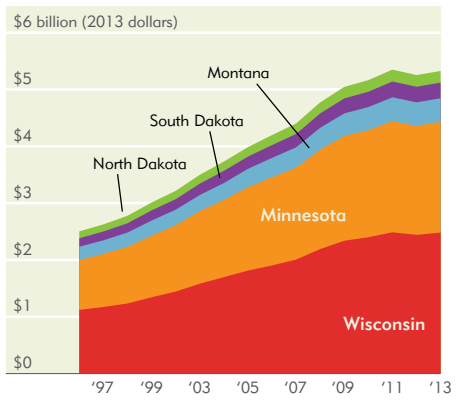
pense of disability programs. In 2013, cash benefit expenditures in the United States were $140 billion and $48 billion for SSDI and SSI, respectively, according to the SSA. Despite leveling off in recent years, SSDI cash benefits in district states rose more than 90 percent from 2000 to 2013, reaching $5.3 billion (see Chart 4).

Health care is also a major expenditure for both disability programs. In 2012, people enrolled in SSDI received $69 billion in Medicare services, according to the SSA. Health care costs for those with disabilities on Medicaid reached $147 billion in 2010, or about 45 percent of all Medicaid expenditures by states and the federal government. (However, it's unclear from the data how much of this care went solely for SSI recipients with a disability.)

Chart 4

SSDI cash benefits rising with enrollment

Annual SSDI cash benefits in Ninth District states



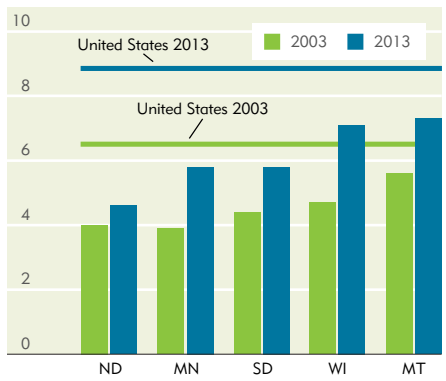
* Total includes benefits paid to spouses and children of workers with disabilities

Source: Social Security Administration

Chart 5

Disability taking bigger bite out of labor force

Working-age disability recipients* as a percent of labor force



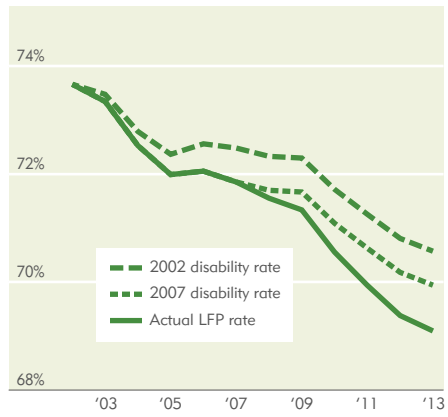
* SSDI workers and SSI recipients ages 18 to 64

Source: Estimates based on data from the Social Security Administration and the Bureau of Labor Statistics

Chart 6

Rising disability eating into labor force participation rate in Ninth District*

Labor force participation rate, actual and counterfactual trends**



* Includes Minnesota, Montana, North Dakota, South Dakota and Wisconsin

** Ratio of working-age disability recipients to civilian non-institutional population held constant after the respective index year

Source: Social Security Administration and Bureau of Labor Statistics

Disability up, labor force down

Rising disability rates also have not-so-trivial effects on the labor force. In 2013, 8.3 percent of the U.S working-age labor force received benefits from either SSDI or SSI, up more than 2 percentage points since 2003 (see Chart 5). The Ninth District average crept up from 4.4 percent to 6.2 percent over the same period. Though individual state rates vary considerably, none are above the U.S. average.

This increase in disability incidence translates to tens of thousands of additional workers in district states who are either out of the labor force or working on a limited basis, offering at least a partial explanation for steadily declining labor force participation rates. Calculations by the *fedgazette* suggest that labor force participation rates in the Ninth District in 2013 would be higher merely if disability rates in 2002 and 2007 had held steady, all other things held constant (see Chart 6). A more formal study by the Federal Reserve Bank of Atlanta found that the increase in disability was the second leading contributor (behind an aging population) to the nation's falling labor force participation rate. Disability accounted for about one-quarter of the three-percentage-point decline in national labor force participation between 2007 and 2014.

There are a handful of reasons for the increase in disability recipients. Stephen Goss, chief actuary for the SSA, told Congress that much of the increase is due to demographic factors. Over the past four decades, more women entered the workforce, which pushed up the number of workers covered by SSDI (by contributing payroll taxes to Social Security and achieving the necessary work history). Women's disability rates also have been rising, catching up with male counterparts. The overall age of the workforce has been rising as well, and aging is directly related to higher disability. Increases in the Social Security retirement age have kept those with the highest disability rates on the job longer.

Exactly how much these factors explain the overall increase in disability is debatable. Most analysis on the topic suggests that demographic factors do not fully account for the rise in disability. But the role of other factors is difficult to determine because they tend to be more idiosyncratic. Disability itself is not always easily defined in terms of the capacity for work and eligibility for non-work benefits. While eligibility guidelines are extensive, there also have been numerous changes over the years that have a major influence on who applies for and receives disability benefits.

One of the biggest changes occurred in the 1980s when Congress made broad and difficult-to-verify disorders such as mental illness and musculoskeletal conditions (like back pain) eligible for benefits. From 1982 to 2013, SSA figures show that the share of (growing) annual awards for these two disorder categories rose from 27 percent to 53 percent.

Another wild card in disability trends is the state of the economy. While economic conditions would seem to be mostly independent of a person's health and disability status, eligibility guidelines for disability benefits consider age, education and work experience, as well as whether the applicant has realistic employment opportunities.

These so-called vocational factors are particularly relevant for older applicants and those with limited skills and education—factors that come into play more frequently during recessions when competition is fierce for limited job opportunities. In a recession, disabled workers "are the first ones not hired or the first ones fired, and there's not another job to just go get," said Anne Quincy, a staff attorney at Mid-Minnesota Legal Aid.

Quincy has worked in disability benefits since the 1980s, "and I've seen several waves come through." Her office takes mostly SSI cases—applicants who "are very poor and don't have a long work history" that would allow them to qualify for more generous SSDI. She said there was a "big uptick" in clients four years ago because of the recession, particularly among older workers and those with mental disorders.

And it doesn't necessarily take a recession to affect vocational eligibility for disability; the long-run health of local economies also appears to have a major impact on the incidence of disability. A closer, county-level look at the Ninth District shows that SSDI rates fluctuate considerably within states. A handful of northern counties in Minnesota, Montana and Wisconsin, as well as most of the Upper Peninsula of Michigan, have disability rates exceeding 8 percent of the labor force (see Map 1). These areas have also experienced the highest growth in disability rates since 2000 (see Map 2).

Chart 7

Disability highly correlated with unemployment

Ninth District counties, 2013

Source: Estimates based on data from the Social Security Administration and the Bureau of Labor Statistics

Each of these high-disability regions has higher-than-average unemployment, and an analysis of the Ninth District's 303 counties shows a high correlation between unemployment and disability rates (0.78; a correlation of 1 would mean they move in perfect synchrony; see Chart 7). In June 2013, unemployment in the Upper Peninsula of Michigan still stood at 10 percent, two full percentage points higher than the national average and three times the level in North Dakota, which has one of the strongest economies in the country and, coincidentally or not, one of the country's lowest disability rates. Disability is

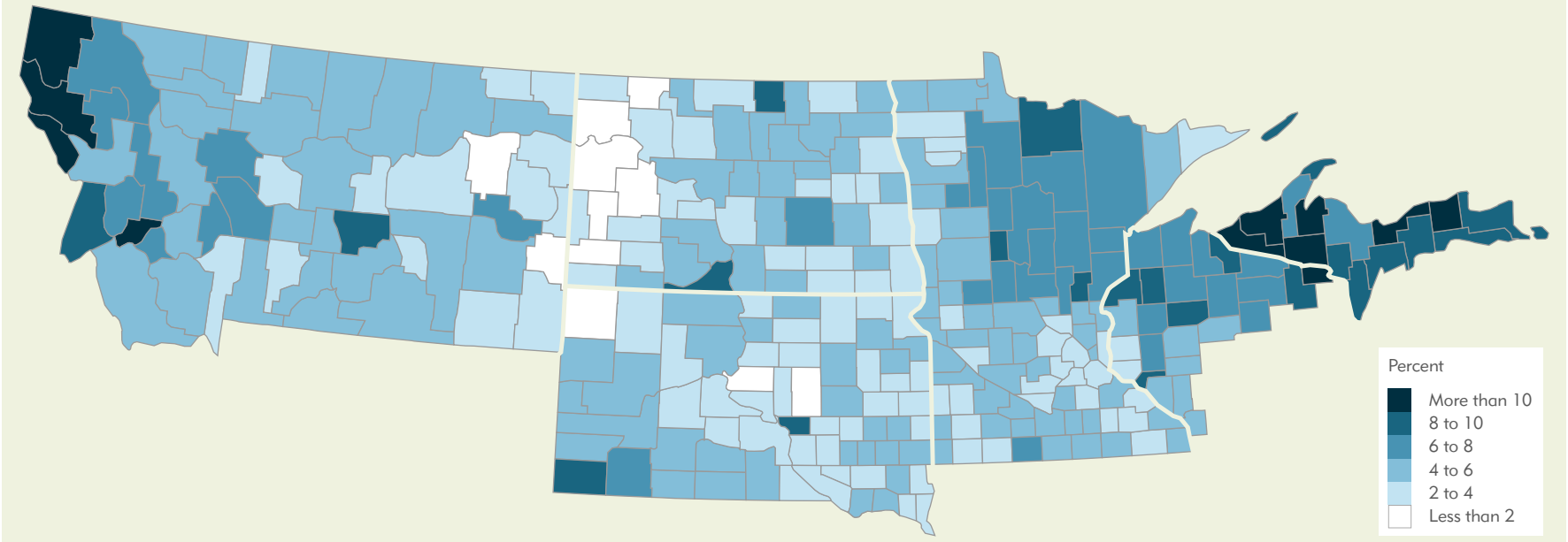
In the U.P., "what you're seeing is a result of younger generations moving out of the areas in question to find jobs and the older generations sticking it out and finding any way they can to survive … and if that means finally applying for SSDI, then that's what they've done."

—Brenda Owen

Map 1

SSDI more concentrated in northern regions

SSDI worker recipients as a percent of labor force, by county, 2013

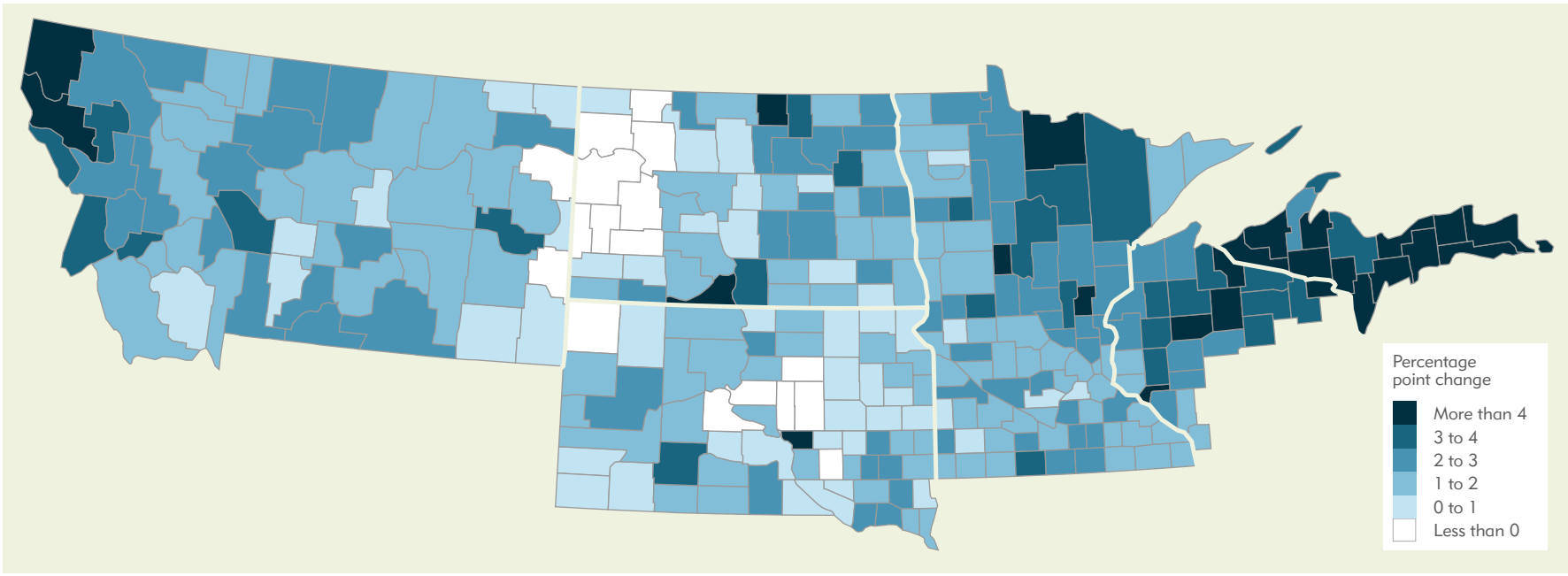


Source: Social Security Administration and Bureau of Labor Statistics

Map 2

SSDI growth higher in Upper Peninsula, northern Minnesota and Wisconsin

Change in SSDI worker recipients as a percent of labor force, by county, 2000 to 2013



Source: Social Security Administration and Bureau of Labor Statistics

comparatively invisible in the booming western area of the state, where oil activity has also attracted a much younger workforce less prone to disability. It is important to note that these correlations do not necessarily imply causation from unemployment to disability, but the numbers are striking.

High unemployment appears to be a trigger for other factors that lead to rising disability rates. In the U.P., "what you're seeing is a result of younger generations moving out of the areas in question to find jobs and the older generations sticking it out and finding any way they can to survive," according to Brenda Owen, executive director of the Michigan Association of Timbermen. "And if that means finally applying for SSDI, then that's what they've done." As younger workers move out of the region, Owen said, the remaining working population becomes older and statistically more likely to experience disability.

U.S. Census data give credence to that theory. The U.P.'s population dropped by more than 10,000 from 2000 to 2009; the number of 20- to 44-year-olds fell by about 13,000, while the population aged 45 to 64 rose by 12,500.

What has evolved, according to a number of sources, is a disability system that increasingly covers "unemployability"; workers with some underlying health condition—but who are still capable of working—who face other ob-

Continued on page 7

Eligibility and awards

Though overall award rates are low, persistence tends to pay off

It happens to people every day across the country. One day, you're healthy and happy. Then "life" happens: There's an accident at work or a call from the doctor about "those tests." Small aches and pains become large ones, or the mental stress of life, or at least work, becomes too much to bear.

You have a disability, and it profoundly affects your ability to do your job. Two large, federal disability programs offer income and medical support for your disability: Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) for those with a disability.

These programs impose some seemingly high hurdles that lead to low overall award rates. But for those willing to endure 12 to 18 months of bureaucracy, an appeal process significantly improves a person's chances of receiving benefits

.

The process

Benefits for both SSDI and SSI are administered by the Social Security Administration (SSA), so the disability determination process is similar for both programs. Federal and state-level offices determine eligibility, using a five-step evaluation to verify that a claimant meets medical and other eligibility criteria for benefits (see Chart 1).

The first three steps determine whether an applicant's disability meets medical guidelines, based on evidence from an applicant's medical providers, according to the SSA. The last two steps—if necessary—consider functional and vocational factors to determine whether benefits are appropriate if a person's limitations alone are not severe enough to warrant benefits. Ordinarily, there is no personal interview with the applicant.

In 2011, about 610,000 (22 percent) of 2.8 million applicants were initially approved for benefits. Almost 1 million were denied for nonmedical reasons, including earnings that exceeded program thresholds, and the remaining 1.2 million were rejected at the initial review level for not meeting medical criteria (2011 is the most recent year available with mostly complete award and appeal data; 6 percent of applications were still pending).

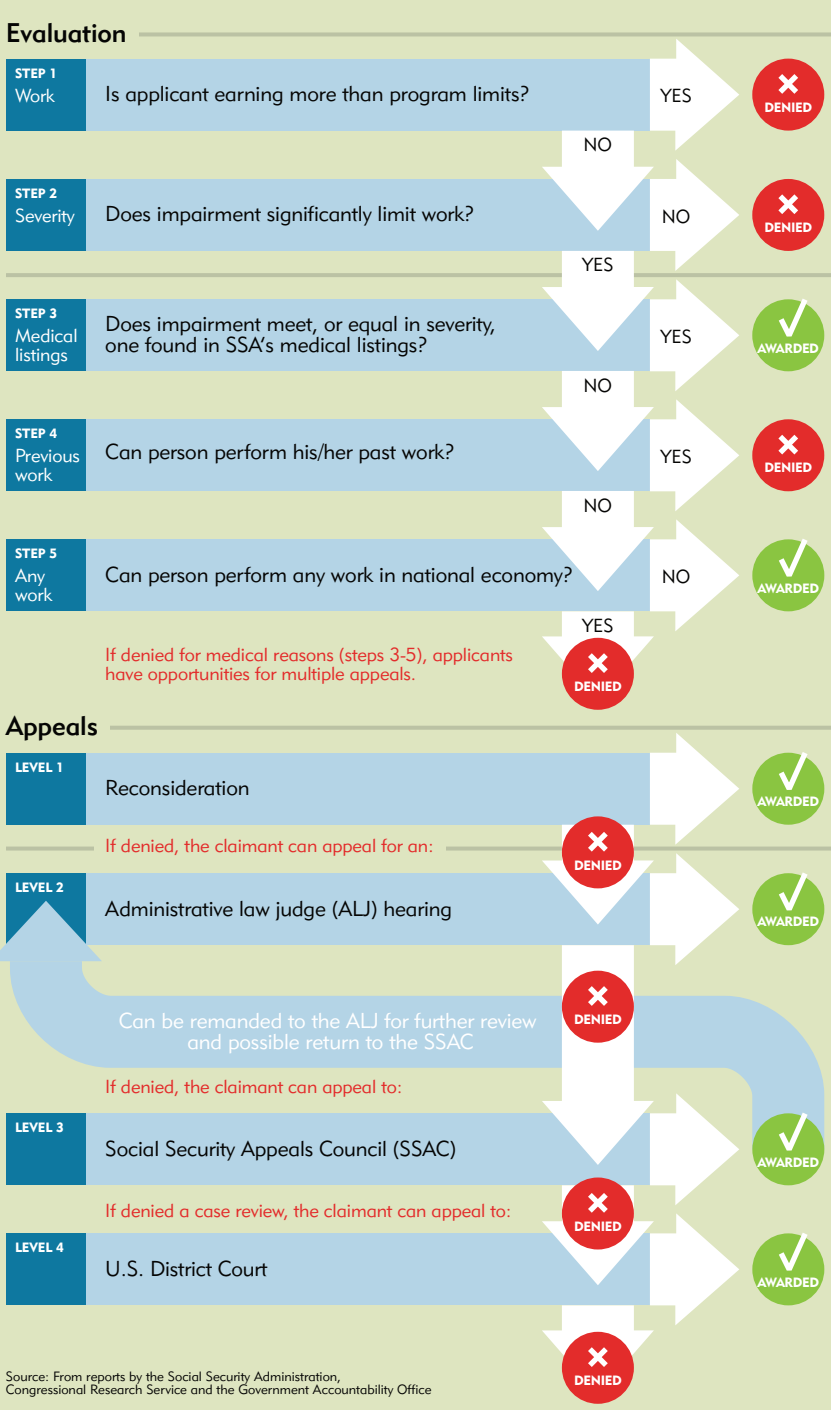
Upon further review

For many of the 1.2 million denied for medical reasons, however, the process has just begun, thanks to four levels of medical appeal whose approval rates vary considerably (see Chart 2). In an average year, between 55 percent and 60 percent of those initially denied for medical reasons appeal the decision, first to the so-called reconsideration level, which has a bare-bones award rate of just 8 percent.

But slightly more than half (53 percent) of those denied a second time continue their appeal. At the last three levels of appeal, benefits are awarded to roughly two of three

Chart 1

Five-step evaluation process for determining disability, plus appeal levels for denied applications

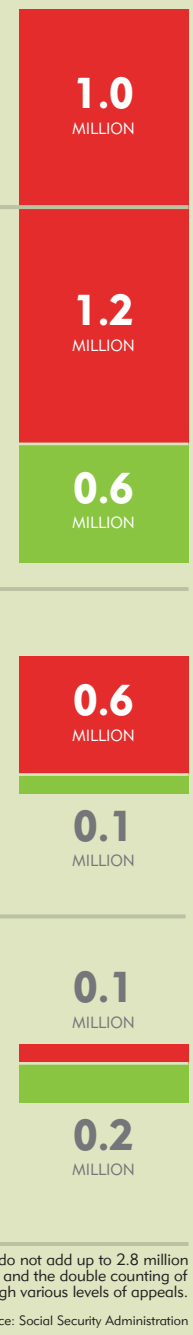


Source: From reports by the Social Security Administration, Congressional Research Service and the Government Accountability Office

Chart 2

Report card on SSDI class of 2011
Total applicants: 2.8 million

Benefit aaprovals and denials at various levels of review*

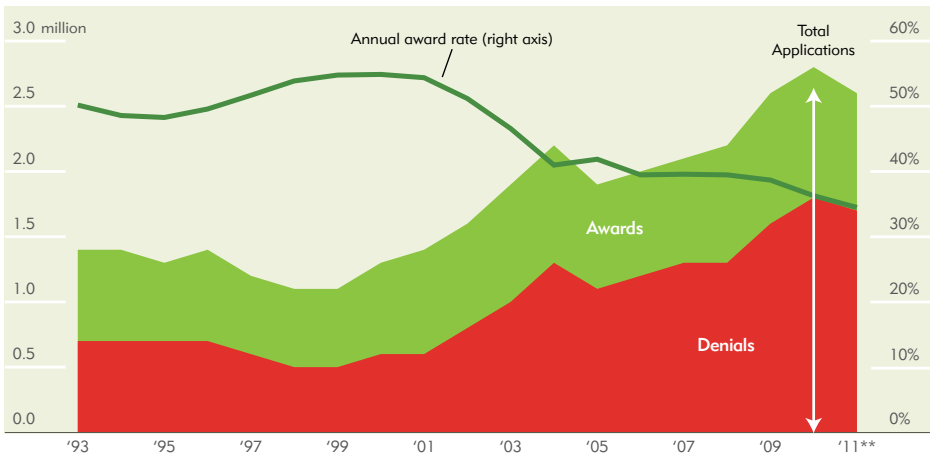


* Totals are rounded and do not add up to 2.8 million because of pending cases and the double counting of applications that go through various levels of appeals.

Source: Social Security Administration

Chart 3

Inside SSDI: More applications, mostly steady award numbers and lower award rate*



* Total applications also includes those applying for SSDI and SSI jointly.
**2011 award rate does not include 177,000 cases still pending, many of them at levels with statistically higher propensity for approval.

Source: Social Security Administration

applicants willing to stick out a process that can last 12 to 18 months from initial application.

In 2011, appeals helped 290,000 applicants—about one-third of all awards that year—receive benefits, raising the overall award rate to 35 percent. That's lower than rates over the past two decades (see Chart 3), but the drop appears to stem at least partly from rising applications. The final 2011 rate is also likely to inch slightly higher, given 177,000 pending cases, many of them at appeal levels with higher approval rates.

The rapid rise in applications and total enrollment for SSDI and SSI has prompted some to suggest a rubber-stamp mentality on the part of evaluators. Disability advocates disagree, pointing to dropping award rates.

Anne Quincy is a staff lawyer for Mid-Minnesota Legal Aid and has been involved in disability benefits since the 1980s. She works mostly with SSI applicants, who undergo the same review process as those applying for SSDI.

"We reject a lot of cases," said Quincy. For 50-year-olds with bulging discs thinking that a disability check looks like free money, "we tell them, you'll be in a room with a lawyer with a bulging disc. And then you'll be in a room with a judge—who is 20 years older—with a bulging disc. There is a system to this. It's not just a hangnail" that qualifies people.

At the same time, those making it to a medical review tend to have a good chance—about 50 percent to 60 percent—of receiving benefits, at least eventually. That rate is due in part to the availability of multiple appeals. Approval rates at the third level—hearings with administrative law judges—can vary significantly even within the same regional office. In the Office of Disability Adjudication and Review's Minneapolis location, award rates of judges in fiscal year 2014 ranged from 32 percent to 78 percent. Rates for judges in Billings, Mont., and Fargo, N.D., fell into somewhat smaller ranges.

Though cases are supposed to be based on firm criteria, the subjectivity of disability and its effect on work capacity often leads to different outcomes, said Quincy. Some judges have "gut feelings" that plaintiffs are really suffering, she said, "and then there are others that say, 'That's not why you're not working.'"

But, she added, "you can't pick a judge … and if you get assigned to judge so-and-so, you take your case there like any other" with the understanding that further appeals are still available.

—Ronald A. Wirtz

Disability and work from page 5

stacles to self-sustaining employment, such as poverty or low education and skills. In a widely cited 2011 NBER paper, MIT economist David Autor said that there "is no compelling evidence that the incidence of disabling conditions among the U.S. working-age population is rising." He called the federal disability programs "a de facto safety net for individuals whose primary barrier to employment is limited labor market opportunities rather than debilitating health conditions."

To work or not to work

Complicating the matter is that very few workers who go on disability ever come off. In a given year, roughly 8 percent of U.S. disability recipients are terminated from the program. But most terminations are due to people dying or reaching full retirement age, when SSDI recipients make the transition to old-age retirement benefits (see Chart 8). Nationally, only 1 percent of disability recipients are terminated annually because of medical improvement or a return to work. In five district states, there were roughly 350,000 SSDI recipients in 2013. Only 1,358—less than half a percent—lost their benefits because of a successful return to work, according to SSA figures.

The reasons for low termination rates offer a glimpse at the difficulties faced by those who need help managing a disability, but are interested in and capable of work.

When Congress created SSDI over half a century ago, disability and employability were viewed as mutually exclusive. You either were disabled and unable to work, or not disabled and capable of working.

"Then the world changed," said Mary Daly, senior vice president and associate director of research at the Federal Reserve Bank of San Francisco, who has studied disability extensively, including a 2011 book on the topic with Richard Burkhauser.

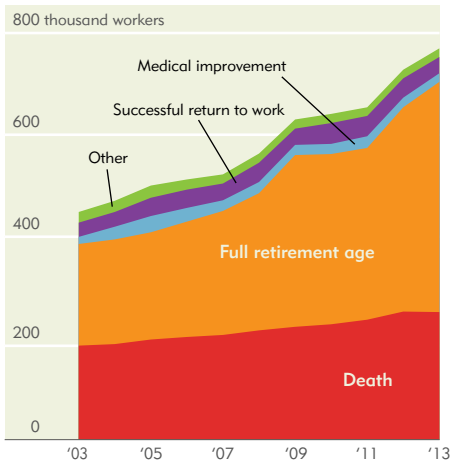
Over time, medical advances, workplace improvements and legislative efforts have helped shift society's thinking about what it means to have a disability. Passage in 1990 of the Americans with Disabilities Act, Daly said, "broadly acknowledged that people with disabilities can and want to work, and should be integrated into the workforce."

But over time, a subtle dichotomy has evolved in the disabled population.

Chart 8

U.S. disability terminations rising, but not for work

Benefit terminations, SSDI workers, by reason



Source: Social Security Administration

Those with disabilities sustained early in life are often given help to get *into* the workforce, at least on a limited basis. But those incurring a disability at any point during their working-age years—almost regardless of type or severity—receive benefits only if they get *out* of the workplace.

"They haven't changed the public support program if you have a health shock. The only option is a cash payment," said Daly. "It's all or nothing."

Just the process of getting approved for disability benefits can be discouraging. Applicants cannot file for SSDI until they have been out of work for five months. Initial approval rates hover around 20 percent to 30 percent, but there are four additional levels of appeals. The average disability recipient waits roughly a year for approval, all of which must be spent without a job.

Waiting entails taking a big financial risk. Jessica Bray is a partner at Upper Michigan Law, which has four offices across the Upper Peninsula, including in Escanaba, where Bray grew up and now practices. Bray's client base this fall included about 65 people attempting to qualify for SSDI, she said.

"If they are turned down [initially], they have to wait 12 to 18 months" for a decision on appeal, during which they are out of a job, and many are "out of income and losing their homes and losing their cars" to pay monthly bills.

Once approved, SSDI and SSI recipients are technically allowed to work, but caps on monthly earnings are low; for SSDI recipients, the monthly limit of $1,090 is equivalent to roughly 18 hours a week at $15 an hour.

Continued on page 8

Disability and work from page 7

The penalty for breaching that limit is severe. "If you go one penny over—no ifs, ands or buts—you're off," said Waranka, from Lifetrack Resources. One of Waranka's clients, a baker at Sam's Club, was asked to take on more hours during the holiday season. "He said, 'I can't do it. If I do more than [normal], I lose my benefits,'" according to Waranka. "I get so frustrated."

For those on SSI, outside earnings are limited to just $85 a month. In 2015, for every $2 above that amount, recipients will lose $1 out of their monthly check of $733. A bigger paycheck also erodes food assistance and other government aid received in tandem with SSI benefits, according to Quincy, from Legal Aid.

Essentially, SSI recipients face a large implicit tax for working more than a few hours a week. Recipients of SSI also "are living much closer to the margins" and have to budget very carefully, Quincy said. "There is a lot more insecurity for SSI [recipients], so they don't work a lot" to avoid the loss of other benefits. Generally speaking, Quincy said, "you're either on SSI and not working, or off."

For many on disability, especially SSDI, the loss of the cash benefits would be bad, but could ultimately be made up by working, many sources said. The real pain would be losing health care benefits.

"What keeps my clients from full-time work [and leaving disability] is losing their medical benefits," said Waranka. "Health insurance for an individual with a disability, I think, is a number one concern. For most of them, there are a lot of extra expenses that come along with their disability. For mental health, it's the drugs, the cost of medication." With full health coverage, he said, "many of my clients would work full time."

Kennebeck said his health coverage through Medicare was "a lifesaver because I'm on seizure medication and I do a refill a month, and that's 200 bucks; whereas, I only pay a little over three bucks. … Heaven forbid something happens, [like] you get in a car accident. [But if so], it's there and it helps you." He added that if the income limits "could be less restrictive than what it is, it would be awesome, because … I want to be working more, but I really can't because I've got to be careful of my SSDI."

For SSI recipients, "Medicaid is huge; it's absolutely the key," said Quincy. Without access to health care, many of her clients wouldn't be treated for their conditions, with disastrous consequences.

A rising disability rate, coupled with a dropping employment rate among this population, has created a public perception with "two extremes," said Daly, from the San Francisco Fed. Individuals are either "all cheaters, or they are all incapable of work. Neither is true," she said. A person might know someone on disability "and see them playing tennis with their kid and say, 'See, everyone's a cheater,'" Daly said. "They are not all cheaters. They are responding to the incentives" embedded in disability programs.

On the flip side, many believe that anyone with a disability has severe, debilitating limitations, when in reality disabled people have a wide range of limitations and capabilities, Daly said. "They are a very heterogeneous pool," but treated as a very homogeneous one.

"I think we've turned a weird corner in our culture that we've become more suspicious of people just trying to rip things off," said Waranka. "Yes, there are those out there. You always hear about the guy who says, 'Oh, I hurt my back and I can't come into work.' And then … he's out there bowling, running around and playing on a trampoline. But, unfortunately, I think we let that be the rule when it's just an exception."

Waranka is himself an exception, but in a very different sense. Waranka is one of the few who has left SSDI. His blindness qualified him for SSDI at age 18. He went to school and worked during his early adult years, "but I never made enough to get kicked off." It wasn't his intent to keep his benefits at all cost. Otherwise healthy aside from his vision, he said he didn't need health benefits in his early adult years, and program compliance "was a headache," according to Waranka. He had to go to meetings to verify his disability—"yep, still blind"—and, when employed, he had to mail in check stubs to prove he was not earning more than income limits. "I wanted to get off," said Waranka. "I wanted to be fully, completely independent," a status that he eventually achieved through his job with Lifetrack.

Insolvency issues

The trajectory of disability recipients and benefit costs is starting to get some attention from policymakers because

Continued on page 10

Are you in good hands?

Different programs offer protection for short- or long-term disability

Disability is a circumstance that most people believe happens to someone else. That's why most people don't buy individual policies to protect themselves.

In place of individual protection, very large plans or programs have evolved over time that offer protection against the ravages of aging and accidents that can occur on the job or off. In all, these programs provide disability coverage to most workers and pay disability benefits to at least 20 million individuals annually (not including spouses and children who also qualify).

That number is artificially low because nationwide data for private disability plans are scarce. But of this total, the large majority—roughly 95 percent—of those receiving disability payments are receiving them through one of three federal government programs: Social Security Disability Insurance (SSDI), Supplemental Security Income (SSI) for individuals with a disability and U.S. Department of Veterans Affairs (VA).

Disability coverage varies widely. SSDI covers anyone having paid into Social Security for 10 years, which is currently more than 150 million workers. SSI-disability is technically available to 195 million adults aged 18 to 64, but recipients must be extremely poor. Private, employer-based long-term disability insurance plans reportedly cover 32 million workers, according to the Council on Disability Awareness (CDA), an industry group representing long-term disability insurance companies. There are also a handful of federal disability plans for specific occupations—railroad employees, coal miners—that cover a tiny fraction of all workers.

Most programs protect against long-term disability of any sort, incurred on the job or off. But other types of protection exist. Workers' compensation covers 128 million workers for job-only related injuries and related time away from work; roughly 40 percent of workers also have short-term disability policies, according to the Bureau of Labor Statistics.

Generally speaking, most coverage comes through an insurance model, where there are distinct candidate pools, upfront costs to potential beneficiaries (and/or their employers) and defined benefits for those qualifying. Others, like SSI and VA, are designed more like a social safety net; these programs provide defined benefits for qualified individuals, with no payment required.

There is some overlap among programs. For example, a person can receive SSDI and still qualify for other coverage. According to a Congressional Research Service report, about 6 percent of SSDI beneficiaries in 2012 also received benefits from either workers' compensation or a private disability plan.

More recipients, except not

Each of these programs has experienced significant—but in some cases dissimilar—trends in recent years. Broadly speaking, the total number of recipients has jumped in the federally sponsored disability programs. Annual recipients of SSDI (workers only) and SSI rose by 52 percent and 28 percent, respectively, from 2005 to 2013. The number of people receiving veterans disability increased by 42 percent over the same period—likely due to the wars in Iraq and Afghanistan—while the eligible population declined by 16 percent, according to the U.S. Department of Veterans Affairs.

Statistics on private, long-term disability plans are less robust. Available data show that the annual number of private disability recipients has stayed mostly level since 2009, at around 660,000, according to the CDA, whose members represent 75 percent of this market. In comparison with the three federal plans, long-term private disability plans make up a small fraction of total beneficiaries and have a lower incidence rate (see Chart 1). The number of new beneficiaries is also much

smaller for private plans—about 150,000 in 2013, compared with more 623,000 and 888,000 for SSI and SSDI, respectively.

The annual number of workers' compensation claims is considerable—there are no nationwide claim data, but California (with about 10 percent of covered workers) saw almost 500,000 claims in 2011, according to an annual state report. However, in contrast to growing disability in federal programs, the national rate of workers' comp claims (per 1,000 insured workers) was cut in half from 1995 to 2009, according to the National Council on Compensation Insurance, which did not respond to data requests.

With much higher enrollments, federal disability programs dominate total program outlays. Combined, recipients of SSDI, SSI and veterans disability received almost $500 billion a year in cash and medical benefits (see Chart 2). The only private program in the same neighborhood is workers' compensation, at $63 billion in benefits.

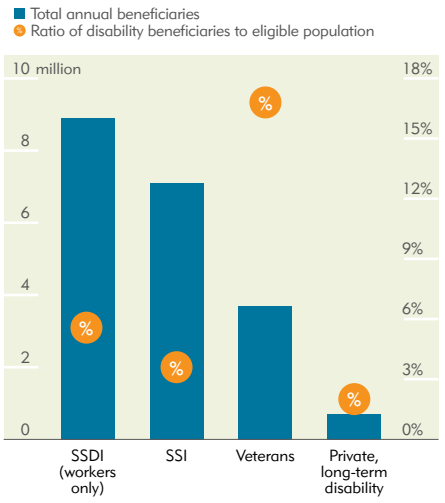
Costs for both cash and medical benefits have also been rising steadily for public disability plans, while those for workers' compensation have stayed in check (see Chart 3). By comparison, total real costs for private, long-term disability plans (which are not listed in the chart) went up by 13 percent from 2009 to 2013, to about $10 billion, according to the CDA.

—Ronald A. Wirtz

Chart 1

Got you covered?

Beneficiaries and disability claim ratios, 2013

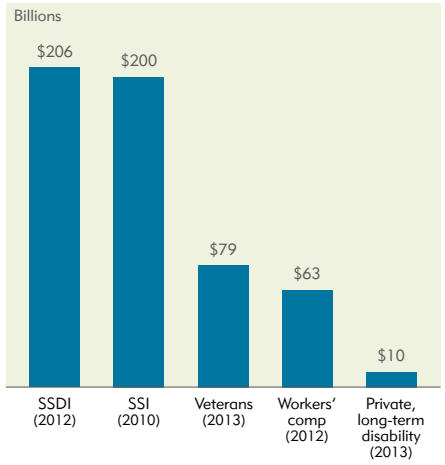


Source: Social Security Administration, U.S. Department of Veterans Affairs, Council on Disability Awareness

Chart 2

Big and little disability

Annual benefit expenditures, most recent year available for both cash and medical benefits

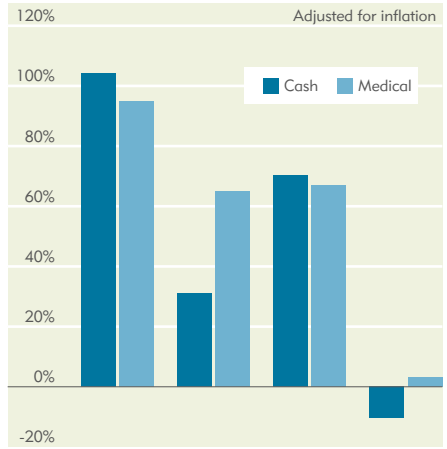


Source: Social Security Administration, U.S. Department of Veterans Affairs, Council on Disability Awareness, National Academy of Social Insurance

Chart 3

Price of disability going up

Change in annual cash and medical benefit expenditures, 2002 to 2012*



* 2000 to 2010, the most recent 10-year period available for SSI.

Sources: Social Security Administration, U.S. Department of Veterans Affairs, National Academy of Social Insurance

Public and private disability programs

	Eligible beneficiaries	Who administers?	Who pays (directly) for the coverage?	Annual cost	Covered population	Annual beneficiaries	Annual benefits paid	Income replacement level
Workers' compensation	Workers at firms with at least one paid employee	Varies by state; state agencies, private carriers, self-insurance	Employers with at least one employee on payroll	$83 billion	128 million workers	3.6 claims per 100 insured workers (2009)	$32 billion, cash benefits; $31 billion, medical benefits	Varies by state. Maximum monthly payment for total permanent disability in Minnesota is $850; South Dakota, $648
Private, long-term disability insurance	Workers at private businesses that purchase long-term disability insurance; some individuals	Employers and individuals	Employers and employees	Not available	32 million workers, via 214,000 employers with policies	653,000	$9.8 billion (no cost breakdown)	60 percent of income (median)
Temporary or short-term disability (state-mandated only)	Workers at private businesses that purchase short-term disability insurance	State and private insurance plans; only five states plus Puerto Rico require coverage; no data available on other states	Employers, individuals	$6.5 billion for CA, NJ, RI; no data for HI, NY and PR	At least 25 million in states that require coverage; no data available in states with no requirement	Not available	$5.8 billion for CA, NJ, NY and RI; no data for HI and PR (no cost breakdown)	Varies; the New York State Insurance Fund paid an average of about $1,500 for 9,462 claims
Social Security Disability Insurance	Workers who pay Social Security and Medicare payroll taxes	Federal government (Social Security Administration)	Employers and workers through payroll tax	$106 billion	151 million workers	10.2 million total recipients (including widow(er)s and adult children); 8.9 million disabled workers	$137 billion in cash benefits; $69 billion in medical benefits through Medicare	Varies by earnings history; median is $1,150 per month
Supplemental Security Income	Poor individuals	Federal government (Social Security Administration)	Taxpayers	Same as benefits paid	All adults in poverty	7.1 million	$48 billion (cash benefits); $148 billion in Medicaid services to individuals with disabilities (though not all necessarily to SSI recipients)	$733 per month
Veterans	Veterans with a service-connected disability	Federal government (U.S. Department of Veterans Affairs)	Taxpayers	Same as benefits paid	22 million veterans	3.7 million	$49 billion for cash benefits; $29 billion for VA-sponsored health care (estimate based on total VA health care expenditures and share of disabled veterans)	$1,100 per month

All data from 2012 or 2013 unless otherwise noted

Sources: Social Security Administration; National Academy of Social Insurance; National Council on Compensation Insurance; U.S. Department of Veterans Affairs; New York State Insurance Fund

Disability and work from page 8

Over time, medical advances, workplace improvements and legislative efforts have helped shift society's thinking about what it means to have a disability. Passage in 1990 of the Americans with Disabilities Act "broadly acknowledged that people with disabilities can and want to work, and should be integrated into the workforce."

—Mary Daly

the SSDI trust fund that pays for disability benefits is expected to become insolvent next year. Simple fixes are available—like shifting more payroll tax revenue to the disability trust fund from the old-age retirement trust fund, which is projected to remain solvent for roughly the next two decades.

"It's an easy way to fix it in the short term. [But] no economist is on board with this," said Daly, because it doesn't fix the underlying problem. In her view, the underlying problem is the disincentive to work. The existing system "is a double drain on the economy" because benefits are being paid out, increasingly to workers in their prime working years, and the taxes these workers would otherwise generate are being lost. "This is a critical issue and a building problem for the U.S."

There are programs available through Social Security that give disability recipients an opportunity to test full-time work without financial penalties (Trial Work Period) or offer full-time job seekers rehabilitation and other support services (Ticket to Work). Waranka said such programs are laudable, but they don't allow recipients to build the work history necessary to obtain good-paying jobs with health benefits that would allow them to safely forgo disability benefits.

Participation in these back-to-work programs is low, as evidenced by very low rates of disability termination for those who out-earn income limits. Ticket to Work is part of a larger vocational rehabilitation (VR) reimbursement program, where SSA pays state VR agencies for services that result in significant work earnings for beneficiaries. According to the SSA, in 2013 it paid state VR agencies $138 million for employment-related outcomes for about 10,000 beneficiaries. That represents one-tenth of 1 percent of workers receiving SSDI, and an even smaller percentage of program expenditures.

Some believe the Affordable Care Act offers a real opportunity for those looking to get off disability. For example, "pre-existing conditions can't be excluded from coverage any longer, so that's a big plus" in terms of finding private insurance, according to Anne Henry, an attorney with the Minnesota Disability Law Center. She added that as part of the ACA, Minnesota expanded its Medicaid program (called Medical Assistance), offering coverage to individuals with higher income thresholds (138 percent of the federal poverty level, or about $16,000), and it "doesn't require a person to seek disability status and prove they are totally and permanently disabled and can't work."

A December report by the Minnesota Department of Health and Human Services found that the steady increase in disability care through Medical Assistance had pivoted in January 2014. It noted that "substantial numbers" of new enrollees, who in the past needed a disability determination to be eligible for MA, are now entering under the general category of "adults with no children" because of the higher income limits.

Quincy, from Legal Aid, said the ACA "has made it easier for people with disabilities [in Minnesota] to choose whether and how much they will work. I think it factors into people being less afraid to get off disability benefits, and I'm already seeing it factor into people's choice about whether to apply to get on disability benefits in the first place. I think it is beginning to dawn on people that the cliff—that point where you earn $1 too much and lose not only your [disability benefit] income, but your health coverage as well—is gone."

However, the circumstances are different for those in Montana, South Dakota and Wisconsin, which did not expand their Medicaid programs in a fashion similar to Minnesota. In many cases, expanded health care access in these states is limited to low-income subsidies for marketplace insurance.

Early intervention

It has been argued that it is important to shift the disability focus upstream, helping workers avoid entry onto disability rolls in the first place, possibly through early recognition and treatment of disorders, workplace modifications or retraining for jobs that can better accommodate a worker's limitations and provide a sustainable income.

Daly argues that the government should "intervene very early when workers have a health shock. We need to keep people in the labor force" because research has consistently shown that trying to get back into the workforce after leaving is difficult, and more so the longer one is out of work. Hypothetically, such a shift could also curb government disability expenditures, despite higher initial costs, because short-term services are less expensive than long-term cash and medical benefits.

Daly stated that a major obstacle to changing current programs is the fact that SSDI is part of Social Security—"the third rail of politics … and SSI is along for the ride"—and any proposals for change face many embedded interests. As a result, "nobody wants to touch it. … You don't have the political climate to do reforms."

Research in 2013 by Daly and three other academics found that countries like the Netherlands, Sweden, Great Britain and Australia faced similar surges in disability enrollments and managed to enact reform. "But they were more generous programs that got out of hand, and were fiscally insolvent and had a tipping point" that provided the political impetus for change, she said. "We're starting to get to that point," particularly given the status of the SSDI trust fund.

Kennebeck, for one, welcomes the opportunity for further discussion on disability, benefits and employment. If someone earns more than SSDI caps allow, he said, "maybe decrease that amount [of cash benefit] that you get, and not completely cut you off. I'm not saying give somebody all the cash in the world, but at least help them out a little bit." f

Online job ads still high in North Dakota

The economic effect of low oil prices is a hot topic in oil-producing states like North Dakota. While many fear a big slowdown in the Peace Garden State, so far it's not showing up in online job ads, according to the most recent figures published by Job Service North Dakota.

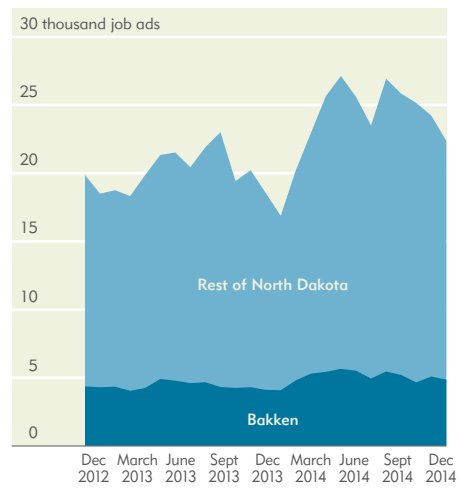
December online job ads showed a couple of interesting twists. First, while overall ads declined steadily in recent months, they were nonetheless 21 percent higher on a year-over-year basis (see chart below). Similar to 2013, a seasonal decline can be seen in the last half of 2014. Job openings in the energy production counties of the Bakken followed a similar trend, with a decline from August to December, yet December's online job total was 18 percent higher than a year earlier.

Despite continued strong job demand overall, some shifts in advertised jobs at the state level align with the notion of slower oil activity. For example, job ads in the construction and extraction sector grew less than 1 percent over the previous 12 months. Meanwhile, health care, food service, management, and architecture and engineering increased more than 30 percent. On the other end, production job postings decreased about 10 percent.

It's difficult to say how these sector changes played out geographically (county level data were not available for job sectors). Some of this shift is likely driven by growth in health care and other professional jobs in the state's metro counties, especially Fargo's Cass County, which saw online job postings increase by 40 percent over the past 12 months. There might also be transitional shifts in Bakken counties as communities there grow.

—Ronald A. Wirtz

North Dakota and Bakken online job ads: Declining of late, but still high



Source: Job Service North Dakota