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WORK ABILITY AND THE SOCIAL INSURANCE SAFETY NET IN THE YEARS PRIOR TO RETIREMENT

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Concerns about the effectiveness and cost of the disability safety net are becoming increasingly urgent as the nation ages. A patchwork of public programs—primarily Social Security Disability Insurance (DI), workers' compensation, Supplemental Security Income (SSI), and veterans' benefits from the Department of Veterans Affairs—provides income supports to people who are unable to work because of physical, cognitive, or emotional impairments. Despite these benefits, a substantial portion of Americans with disabilities in their fifties and early sixties live in poverty, raising questions about how well these programs reach those in need and how well they serve those they reach. Moreover, program costs will likely continue to grow as the baby boomers age, because many disability beneficiaries are in their fifties.

This paper examines the economic consequences of disability in the years leading to retirement. Data come from the University of Michigan's Health and Retirement Study, a longitudinal survey of Americans age 51 and older who were interviewed every other year beginning in 1992. We restrict our analysis to 4,661 noninstitutionalized respondents age 51 to 55 in 1992, and observe their disability status, disability benefit receipt, and income until they reach age 64, just before qualifying for full Social Security retirement benefits. We estimate survival functions that show the cumulative probability of becoming disabled by age 64. For those with disabilities, we examine benefit receipt from DI, SSI, workers' compensation, and veterans' benefits, using a combination of survey self-reports and linked Social Security administrative data. The analysis estimates logistic regressions of disability benefit receipt and hazard models of time to benefit receipt for each type of benefit and for all types combined. The report also compares income levels and poverty status before and after disability onset and benefit receipt.

We measure disability using a multidimensional measure that combines information from multiple questions about self-assessed work disability, overall health status, limitations with activities of daily living, functional impairments, and depression. We estimate a model of labor force participation as a function of these health and disability measures, plus education, wealth, demographic characteristics, and spouse's employment and earnings, for a sample of HRS respondents pooled over the eight interview waves between 1992 and 2006. We multiply the estimated marginal effect of each health variable on labor force participation by the measure's value and sum all the health measures in the model to generate a work disability index score for each respondent. This score reflects the likelihood that adults in their fifties with a

given set of health measures would participate in the labor force. We classify respondents as disabled if their disability score places them in the bottom 20 percent of the sample. We also use the score to measure disability severity.

The results underscore the precarious financial state of most people approaching traditional retirement age with disabilities. Disability rates increase steadily as people age from 55 to 64. Fewer than half of people who meet our disability criteria ever receive disability benefits in their fifties or early sixties. Benefit receipt rates are much higher among those with the most severe disabilities, suggesting that benefits are targeted to those least able to work, but women are less likely than men to receive benefits, even when we control for disability severity. Many who receive disability benefits fall into poverty. Specific findings include the following:

- The cumulative probability of having disabilities grows steadily with age, roughly doubling from age 55 to 64 and increasing about 18 percent from age 62 to 64. Disability rates are higher for women than men, and for African Americans and Hispanics than non-Hispanic whites. They decline as educational attainment and income rise.
- Among adults who meet our disability criteria, 46.7 percent receive public disability benefits at some point between age 51 and 64. DI is the most common benefit, with 30.3 percent receiving payments. About one-sixth (16.4 percent) receive SSI. Only 9.1 percent receive workers' compensation and 5.2 percent receive veterans' benefits.
- Benefit receipt increases steadily as disabilities worsen. Among the fifth of disabled adults with the most serious disabilities, nearly three-quarters (74 percent) receive benefits from some public disability program. By contrast, only about one-sixth receive benefits among the fifth of disabled adults with the least serious disabilities.
- When other factors are controlled for, benefit receipt increases with disability severity, suggesting that help is targeted to those least able to work. However, disabled women are significantly less able to receive benefits than disabled men, perhaps because many women with intermittent work histories do not qualify for DI.
- Disabled adults who have been diagnosed with cancer are more likely than those without a cancer diagnosis to receive DI benefits, even after we control for disability severity. In some of our model specifications, diagnosed heart problems also increase DI receipt.
- Poverty rates more than double following disability onset. For adults who become disabled between age 51 and 64, the share with income below the federal poverty level increases from 7.4 percent before disability onset to 15.5 percent afterwards. Post-disability poverty rates reach nearly 31 percent for single adults and 21 percent for the two-fifths of disabled adults with the most severe disabilities.
- Poverty rates increase more sharply for disabled adults age 51 to 64 who receive disability benefits than for those who do not, because they have more serious disabilities. Poverty rates for those receiving benefits nearly triple (from 7.9 to 22.2 percent) between the wave before disability onset and the wave after benefit receipt. For disabled adults receiving no benefits, poverty rates increase only 4 percentage points, to 10.5 percent, after disability onset.

Policymakers might better target benefits to those with work limitations by better integrating functional ability into the DI award decision. DI's eligibility criteria, which rely on lists of specific medical conditions, may make it difficult for disabled people who lack certain serious diagnoses to obtain benefits. Raising SSI benefit levels and the asset limit for program eligibility would also improve economic well-being for people with disabilities.

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