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MEASURING THE SPILLOVER TO DISABILITY INSURANCE DUE TO THE RISE IN THE FULL RETIREMENT AGE

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The Social Security Amendments of 1983 increased the full retirement age (FRA) from 65 to 67. The policy affected birth cohorts differently: people born in 1937 or earlier still have an FRA of 65, those born between 1938 and 1959 face a rising FRA by birth year, and those born in 1960 or later face an FRA of 67. These later cohorts also face a greater actuarial reduction in their Social Security benefits if they claim between the Earliest Eligibility Age (EEA) of 62 and their FRA. However, the amendments did not change the Social Security Disability Insurance (SSDI) program. Therefore the SSDI program has become relatively more attractive for the later birth cohorts, because the value of disability benefits has increased relative to Social Security retirement benefits.

This paper measures how responsive individuals are to the new financial incentives to apply for SSDI benefits using the *Health and Retirement Study* from 1992 through 2008, and merge it with the SSA Detailed Earnings Records (HRS-SSA). We then consider how disability benefit receipt has changed, to understand if this increase in the application rate means more than just increased administrative costs to the Social Security trust funds.

We find that the spillover into the SSDI application pool is non-trivial. Our baseline estimate is that a decrease in the retirement to disability benefit ratio by 1 percentage point leads to a 0.25 percentage point increase in the two-year SSDI application rate, or an 8 percent increase on a base of 3.1 percent. We test several margins for heterogeneity in the response to these financial incentives. We find that single women are not responsive to these incentives, and that their increasing numbers on the SSDI caseload are due to increases in eligibility and decreasing health reasons. We find that blue-collar workers are the most likely to respond to these financial incentives, with an estimated impact of 0.40 for every 1 percentage point increase in the ratio between Old Age benefits and Disability Insurance benefits, compared to a 0.16 percentage-point increase for white-collar workers. This sensitivity could be motivated by decreasing employment opportunities. Our estimates suggest that for the year 2009, approximately 150,000 out of the 2.8 million applications were induced by the changes in the relative generosity of the program.

These estimates suggest that the characteristics of the SSDI application pool could change dramatically due to the increase in the FRA. We find direct evidence that the applicant pool is sicker, however, not in ways that are likely to increase the acceptance rate onto the SSDI program. Accordingly, we find that the acceptance rate declines with birth year. Further, we do not find any evidence that the SSDI recipient pool changes; we find no increase in SSDI benefit receipt between age 55 and the FRA, based on birth year, once controlling for health and the determinants of SSDI insurance coverage.

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