

Style by Design

TIFFANY & CO.

Print  Close **INVESTORS.com**

POWERED BY INVESTOR'S BUSINESS DAILY™

IBD EDITORIALS

Disability Insurance Must Be Restructured To Protect Vulnerable, Incentivize The Fit

By JAGADEESH GOKHALE

Posted 12/17/2010 06:38 PM ET

Jobs lost during the recent recession caused a deluge of applications to the Social Security Disability Insurance program — more than 6 million each year in 2009 and 2010 — and threw into relief the fact that the SSDI program is structurally unsound.

The current applications surge will accelerate the exhaustion of SSDI's trust fund and will force Congress to have to choose among two unpalatable options — increase SSDI payroll taxes or reduce benefit allowance rates.

But that is not enough. If the particularly vulnerable population the SSDI is designed to serve is to be protected, while preserving incentives to work, the program has to be radically restructured.

Why Get A Job?

Even in normal economic times, those with marginally physical or mental impairments apply in the hope of acquiring disabled status under SSDI. Among those already receiving SSDI benefits, the incentive to return to the work force is very poor.

Revealing one's ability to work, especially if it's in a low-paid occupation, could cause permanent loss of SSDI benefits. Strong work disincentives under SSDI result from its eligibility standard that guides benefit awards: an inability to engage in substantial gainful activity for 12 months or more.

Professors David Autor of Massachusetts Institute of Technology and Mark Duggan of the University of Maryland recently proposed reforming SSDI to solve its twin problems of impending fiscal shortfalls and poor employment incentives.

They propose a new "front-end" universal program of private disability insurance (PDI) paid for out of a new payroll tax to be shared by employers and employees. PDI would provide employment supports to disabled workers with a view of keeping them on the job. It would also provide new subsidies to employers to retain disabled workers on the job.

Under their reform, applications to SSDI by those with disabilities but who could continue working with assistive technologies would be statutorily delayed by 22 months, during which time they would continue to receive PDI's employment supports.

Applications for SSDI benefits by workers with serious disabilities — who obviously cannot continue to work — would be permitted as before. Indeed, in all likelihood, the seriously disabled would begin receiving benefits quickly through SSDI's Compassionate Allowances program. For others, current SSDI would become the "back end" of a three-part system of disability insurance.

Autor and Duggan estimate the annual cost of implementing PDI at \$150 and \$250 per year per worker. They expect PDI to reduce the number of SSDI applications. The more volatile job-market process for the disabled — because of their lower productivity, they tend to be laid-off first and hired last over the course of business cycles — implies volatility in applications to SSDI.

Potentially filtering out frivolous applications under a PDI program would reduce volatility of SSDI applications during recessions and reduce the program's denial rate. In addition, a smaller caseload would reduce waiting times for adjudicating legitimate claims and reduce the program's overall costs.

Indeed, Autor and Duggan suggest that a substantial amount of the cost of implementing PDI would be recovered through SSDI cost savings.

Costs In Time And Money

Nevertheless, workers and disability advocates are unlikely to support the Autor-Duggan proposal. It involves, they would argue, larger upfront costs and much longer delays in qualifying for SSDI benefits.

Apart from discouraging frivolous applications, mandatory delays may also discourage deserving candidates from applying, and decisions about initial employment supports would be made by private, profit-driven insurance firms, potentially, resulting in unfair benefit denials.

In addition, although the authors estimate the cost of PDI to be small relative to annual SSDI payroll taxes (for a lifetime median wage-earner), they do not include the taxpayer cost of employer incentives to retain disabled workers. Those subsidies may work during normal economic times, but not during recessions when the compensation of disabled workers (net of the subsidies) considerably exceeds their productivity.

Flood Of Applicants

On the other hand, PDI might attract so many new applicants — including from among those currently employed — that sizable cost savings to SSDI may never materialize. In that case, PDI would just become another new pay-go financed entitlement program of employment supports without any commensurate gains in employment or productivity.

If, indeed, this approach could save SSDI costs by as much as the PDI proponents contend, an application delay with employment supports for appropriate candidates — conditional on labor-force attachment and demonstration that employment supports are essential — could be integrated into the current SSDI program itself — an employment-conditioned disability "front-end." This way, any cost savings would accrue immediately and directly to SSDI.

The available policy options are:

- Increase payroll taxes to pay for SSDI's unfunded costs.
- Create a new PDI entitlement with continuation of the current poorly structured SSDI program.
- Or reform SSDI directly to improve work incentives and potentially make the program financially more secure.

Introducing a mandatory application delay with employment supports where appropriate within SSDI would avoid many of the Autor-Duggan proposal's shortcomings and help to increase independence and self-sufficiency among many of tomorrow's persons with disabilities.

- *Gokhale is senior fellow at the Cato Institute and a member of the Social Security Advisory Board.*

© 2010 Investor's Business Daily, Inc. All rights reserved. Investor's Business Daily, IBD and CAN SLIM and their corresponding logos are registered trademarks of Data Analysis Inc. [Copyright and Trademark Notice](#) | [Privacy Statement Terms](#) | [Conditions of Use](#)