The Declining Work and Welfare of Working-Age People with Disabilities

Richard V. Burkhauser
Cornell University

Mary C. Daly
Federal Reserve Bank of San Francisco

11th Annual Joint Conference of the Retirement Research Consortium
August 10-11, 2009
Washington, D.C.

This research was supported by a grant from the U.S. Social Security Administration (SSA) as part of the Retirement Research Consortium (RRC). The findings and conclusions expressed are solely those of the authors and do not represent the views of the SSA, any agency of the Federal Government, the RRC, or the Federal Reserve Bank of San Francisco.
1. Introduction

Over the past 20 years the U.S. disability transfer system has more than doubled in size and costs, expanding at nearly five times the pace of the U.S. population and growing more quickly than any other U.S. transfer program. The economic well-being of working-age people with disabilities on the other hand has stagnated in absolute terms and fell relative to others in the population. These outcomes stand in stark contrast to those of another vulnerable population—single mothers—who, following welfare reform in 1996, have experienced rapid gains. We document the divergent trends in benefit receipt and economic well-being for people with disabilities and single mothers and argue that the key difference in their respective outcomes can be traced back to differences in the public policies targeted toward them.


While the United States, like other modern industrialized countries, has a set of public programs that provide protection to those unable to work, work remains the most effective way to share in the economic growth of our society. No outcome highlights this point more clearly than the recent divergence in the economic trends for single mothers and working-age people with disabilities. Over the last decade the economic well-being of single mothers has risen dramatically while the well being of working-age people with disabilities has stagnated. The key difference between these two groups over this period was that the employment of single mothers’ rose while it fell for those with disabilities.

This difference in employment trends was directly related to the policies meant to assist them. In 1996, U.S. welfare policy towards single mothers shifted from a cash transfer program designed to substitute for labor market earnings to a work promotion program designed to assist individuals in obtaining and maintaining employment (Moffit 2003). As a result, and despite a tremendous drop in AFDC/TANF expenditures and beneficiaries (See Table 1), the economic well-being of single mothers, including the less skilled and less educated portion of that population (never-married single mothers), significantly improved in tandem with their work effort (See Figures 1 and 2). Government subsidies—EITC, health care, child care, etc.—were still necessary for those whose labor earnings were low, but these benefits were all focused on encouraging work.
In contrast, welfare policies targeted at either working-age men and women with disabilities or the able-bodied parent(s) of a child with disabilities remained premised on their not working, as did the income replacement policies targeted at working men and women who experienced the onset of a disability. As a result, despite a tremendous increase in Supplemental Security Income (SSI) and Social Security Disability Income (SSDI) expenditures and in working-age beneficiaries, the economic well-being of working-age men and women with disabilities and of able-bodied parents of disabled children remained relatively stagnant as their work effort fell dramatically. Although the ADA idea that working-age men and women with disabilities could and should work became the policy and public norm, this ideal was not matched by changes in programs meant to assist those with disabilities. Instead, the Americans with Disabilities Act of 1990 proved to be the only significant piece of federal legislation that fully embraced this new view of working-age people with disabilities. The other major federal initiatives, SSI and SSDI, remained unchanged, premised on the notion that people with disabilities can’t work, and in doing so increasingly made that view a reality through their program rules and funding mechanisms. For an increasing number of men and women with disabilities and parents of children with disabilities, work did not pay.

3. Lessons from Welfare Reform

The reforms in public policies directed at single mothers that came about with welfare reform revealed several lessons important for transforming both SSDI and SSI policies. Among the most important is that individuals respond to financial and institutional incentives embedded purposely or accidentally in public programs. As such, the observation of behavior, such as no work, does not necessarily indicate that work is not possible for those observed. In the case of single mothers, the changes in the incentives following welfare reform led to substantial changes in work behavior and the realization by observers that the population of single mothers was much more capable and interested in working than previously thought. Another important lesson from this program change is that, when policies promote work and make work pay, individuals and their families gain ground and become economically better off. (See Blank 2002 and Moffit 2003, 2008 for a complete review of the effects of the 1996 reforms.)
In addition to these critical lessons about the behavior and well-being of individuals targeted by public programs, we also can learn from the process of reforms and how these processes affected states and other service providers. The transformation of the old model of welfare provision did not happen overnight. States originally led the way through waivers that allowed them work around federal regulations and try new service delivery mechanisms and innovative programs. These state initiatives provided considerable data on which to build the federal welfare reform and also from which states could craft their own complete programs once the federal policy had been transformed. This experimentation phase was critical to the rapid and successful deployment of state policies following the federal reforms. In thinking about disability policy reforms, it would also be prudent to have a multiphase plan that builds up evidence about reforms that do and do not work.

Finally, the lessons from welfare reform demonstrate that programs with the appropriate incentives in place can act as the programs’ own gate keeping system, meaning that individuals and states self-select who can and cannot work and make judgments accordingly. This means that those who are left on public programs are much more likely to be those who are truly unable to participate in the labor market and who will need and should receive some form of public assistance. Since those who can work will have already opted to do so, the programs designed for this remaining population will truly be long-term support programs with no expectation of individuals moving off the rolls over their lifetimes.

4. Health, Disability Benefits, and Declining Employment of People with Disabilities

As Table 1 showed, the two major cash transfer programs targeted at working-age people with disabilities—SSDI and SSI—grew substantially over the last two decades with respect to both total costs and number of beneficiaries. There are three possible explanations for this growth pattern: changes in the underlying severity of disability in the United States, changes in the eligibility rules for SSDI and SSI program benefits, and changes in the interpretation and implementation of these rules over time. The research suggests that policy changes, rather than changes in the underlying health of the working-age population, are the most likely cause of growth and movements in the disability benefit rolls. Indeed, the stability of measures of poor health and work limitations argues
that changes in underlying health cannot be the principal influence on the disability benefit rolls over the past three decades. See Stapleton and Burkhauser 2003 for detailed treatment of these issues.

4. Conclusion

Although public benefits going to single mothers fell over the last decade, a rise in their employment has led to a substantial increase in their median income. In sharp contrast, the story for working-age men and women with disabilities is that, despite the rise in benefit rolls and dollars spent on SSDI/SSI, their household income has declined, in part because of the decline in employment among these groups, especially over the 1990s. We argue that pro-work policies embedded in the 1996 welfare reforms led to increased employment among single mothers and consequent gains in their household income. In contrast, the employment of working-age people with disabilities has fallen over this period as federal disability transfer programs have increasingly made work less desirable for them. Thus, we suggest that pro-work policy reforms, like those made to welfare, be applied to the U.S. disability system, arguing that people with disabilities could and would work if they and the institutions serving them were given work-oriented incentives.

Table 1 Caseloads and program costs of transfer programs in three trough years of the business cycle

<table>
<thead>
<tr>
<th>Program Costs</th>
<th>1982</th>
<th>1993</th>
<th>2004</th>
<th>2004</th>
<th>most recent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Categorical cash transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSDI</td>
<td>2.604</td>
<td>3.726</td>
<td>6.198</td>
<td>7.427</td>
<td>37.438</td>
</tr>
<tr>
<td>SSI-disabled children</td>
<td>0.192</td>
<td>0.723</td>
<td>0.993</td>
<td>1.121</td>
<td>1.150</td>
</tr>
<tr>
<td>Employment-based cash transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UI</td>
<td>4.059</td>
<td>2.751</td>
<td>2.950</td>
<td>2.572</td>
<td>53.904</td>
</tr>
<tr>
<td>EITC</td>
<td>6.395</td>
<td>15.117</td>
<td>22.270</td>
<td>23.042</td>
<td>3.707</td>
</tr>
<tr>
<td>Non-cash transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicare</td>
<td>--</td>
<td>4.151</td>
<td>6.401</td>
<td>7.022</td>
<td>14.421</td>
</tr>
<tr>
<td>Medicaid</td>
<td>2.891</td>
<td>5.016</td>
<td>7.933</td>
<td>8.332</td>
<td>--</td>
</tr>
</tbody>
</table>

Notes: All caseload figures in millions. All costs measured in billions of 2006 dollars.
Most recent year of data was 2008 for SSDI and Food stamps, 2007 for UI, SSI, and AFDC/TANF, and 2006 for EITC, Medicare, and Medicaid.
Sources: Authors calculations based on data from the U.S. Department of Health and Human Services, U.S. Department of Labor, and the Social Security Administration.
Figure 1: Changes in income of the median vulnerable working-age person

Index = 100 in 1982

Source: Authors' calculations using March CPS data

Figure 2: Employment rates for vulnerable populations

Percent

Source: Authors' calculations using March CPS data
References


U.S. Department of Labor, Employment and Training Administration. (various years) *Unemployment Insurance Financial Data Handbook 394*.

U.S. Department of Labor, Office of Workforce Security (various years). Federal Unemployment Tax Act (FUTA) Reports.

