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Understanding the Increase in Spending on DI and SSI

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The share of working age Americans receiving disability insurance benefits has increased in recent years. Some experts attribute this increase primarily to more lenient eligibility criteria and to labor market changes that increased the incentive for low-wage workers to apply for benefits. Other experts suggest that the aging of the baby boomers into prime disability-benefit-receiving ages and the increased labor force participation of women can explain most of the increase.

In order to distinguish among these perspectives, this paper decomposes the increase in the DI caseload into the share attributable to changes in five factors -- the age distribution of the population, the insured rate, the incidence rate, the death rate, and the recovery rate. It then conducts simulations of the DI caseload under counterfactual scenarios in which one or more of these factors are held constant.

The paper has five main findings. First, for men, DI spending as a share of GDP was at approximately the same level in 2007 as it was in the late 1970s.

Second, spending on DI benefits for women has increased by almost 0.15% of GDP over the past 30 years. While the majority of this increase is the result of population aging and an increase in fraction of women with earnings sufficient for them to be covered by DI, there has been a significant increase in the incidence of DI receipt, with female incidence now approximately equal to male incidence.

Third, although increased incidence accounts for a significant portion of the rise in dependency ratios for both men and women since 1985, the decomposition of this rise is notable. For both men and women, following a decline in incidence rates in the late 1970s and early 1980s, incidence rates rebounded and rose through the late eighties. When adjusted for unemployment and the age distribution of the population, male incidence rates have remained flat since the early 1990s. For women, incidence continued to rise through 1996 among older women and through 2001 among younger women.

Fourth, SSI spending on adults has been remarkably stable at approximately 0.2% of GDP, increasing only about 0.03% of GDP over the past 30 years. This reflects the combination of benefit levels that have fallen relative to GDP and enrollment rates that have risen. In addition, the 1990 Supreme Court Zebley decision, extending disability benefits to additional children, increased SSI spending by about another 0.03% of GDP.

Fifth, overall, about 30 percent of the increase in DI receipt since 1985 is due to population aging, 20 percent is due to increased female labor force participation, 10 percent is due to decreased mortality among recipients, and about 40 percent is due to increased incidence. When measured since 1991, only 23 percent is due to increased incidence and all of this increase in among women. The fact that rates of DI receipt have not declined as some measures of population health status have improved is consistent with theories and evidence suggesting that changing incentives, economic environments, and program

implementation has increased DI take-up. Absent the rise in claims for musculoskeletal and mental impairments, there would be 21 percent fewer DI recipients.

Looking forward, both the Social Security Actuaries and the Congressional Budget Office are projecting that spending on DI as a share of GDP will decline over the coming decade as baby boomers convert from DI benefits to retirement benefits and are replaced in the peak disability-receiving ages by a smaller cohort. There are two main risks to these projections. First, the projections assume that female incidence rates will level off now that they have converged with male rates. If instead female incidence rates continue to rise at the same rate as in recent decades, spending could be higher. Second, over the past 25 years the increased incidence of claims associated with musculoskeletal and mental impairments has been offset by a decline in claims associated with circulatory conditions. If, going forward, musculoskeletal and mental health impairments were to continue to rise without an offsetting decline in other conditions, spending could rise.

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