

Social Security and Total Replacement Rates in Disability and Retirement

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Key Findings and Policy Implications

Social Security beneficiaries that qualify for benefits based on disability have higher income replacement rates in the program, on average, than retirees in the program. One reason is that SSDI beneficiaries have lower career earnings, and the Social Security benefit formula is progressive. Another is that SSDI beneficiaries do not face an actuarial reduction in benefits for early claiming, while retirees do. This study looks at the distinct impact of these factors on income replacement rates within Social Security, and the extent to which beneficiaries have other income that supplements their Social Security benefits. It uses Health and Retirement Study (HRS) data from 1992 to 2010, linked to SSA earnings records. The paper finds that:

- About half of the 10-percentage-point advantage in Social Security replacement rates for SSDI beneficiaries (within the program) is due to the actuarial adjustment, implying that career earnings are not that different between retired workers and those with disabilities.
- Beneficiaries who enter the program through disability, however, typically have much lower earnings from sources outside of Social Security. When one accounts for both Social Security benefits and other income, the total income replacement rate for SSDI beneficiaries is substantially lower than for retirees.
- The total income disadvantage that SSDI beneficiaries face relative to retired worker beneficiaries grows with earnings – disabled workers in the highest quintile of career earnings have total replacement rates that are nearly double the total replacement rates of similar-earning retirees.

The study has significant policy implications in highlighting the differences in Social Security's relative contribution to financial security between those who enter the program through disability and those who enter through age-based retirement. The study finds that SSDI beneficiaries are more exclusively reliant on Social Security, while those entering through age-based retirement (especially at higher income levels) often have supplementary income sources.

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