

Social Security Disability Reform and Implications for Employment

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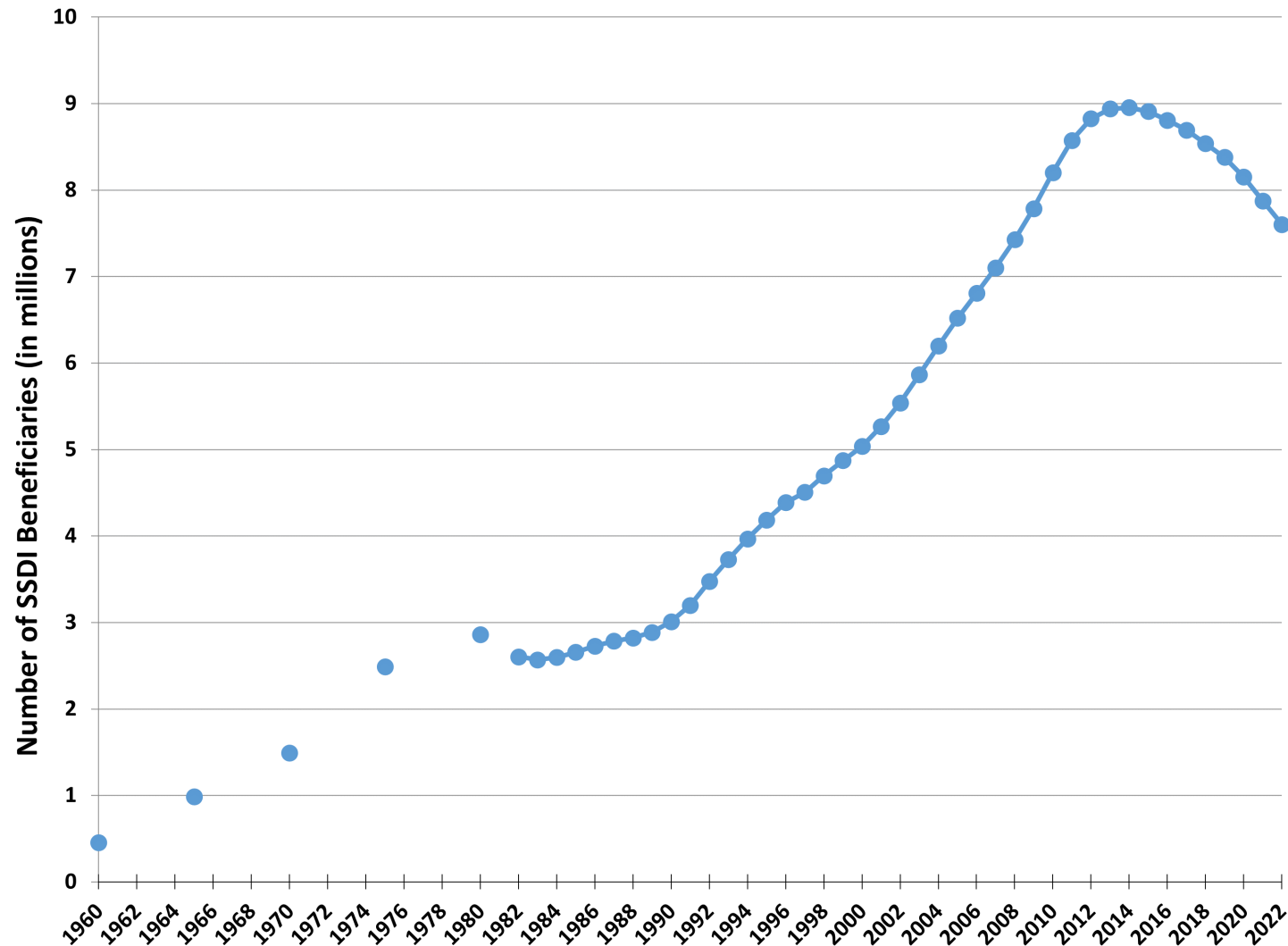
Introduction

- Social Security Disability Insurance (SSDI) provides benefits to workers **who are unable to work due to a medical condition** expected to last at least one year or result in death
- Previous work shows SSDI provides important insurance that mitigates financial and health risks (see e.g., Deshpande, Gross, & Su, 2021; Deshpande & Lockwood 2022)
- Yet after decades of growth, the **SSDI caseload has declined for the last decade** due in part to **declines in allowance rates at the appellate level**
- In this paper, we study the **targeting of SSDI** leveraging the recent period of declining allowance rates and program generosity:
 - What is the underlying work capacity of denied workers?
 - How does this change as the program becomes less generous?
- We explore mechanisms for the decline in allowance rates by documenting and examining **little-noticed SSA administrative policy reforms**

Our Approach

- Combine SSA administrative data covering appellate cases from 2007 – 2015 with Master Earnings File (from W-2 and 1099s) 1979-2019
- Using random assignment of judges in appellate process, estimate effects of SSDI allowance on subsequent labor supply using **judge IV models** across period of declining allowance rates
- Use untreated complier means to characterize **how program targeting evolves as allowance rates decline**
- Explore mechanism for the decline in allowance rates by building the first data set of **little known SSDI reforms at the judge level**, including the timing of hiring and re-training of each judge
- Use **SSDI reforms as IVs** to estimate effects of SSDI allowance on subsequent labor supply – identify earnings capacity of applicants affected by reforms

Recent SSDI caseload contraction after 50 years of growth

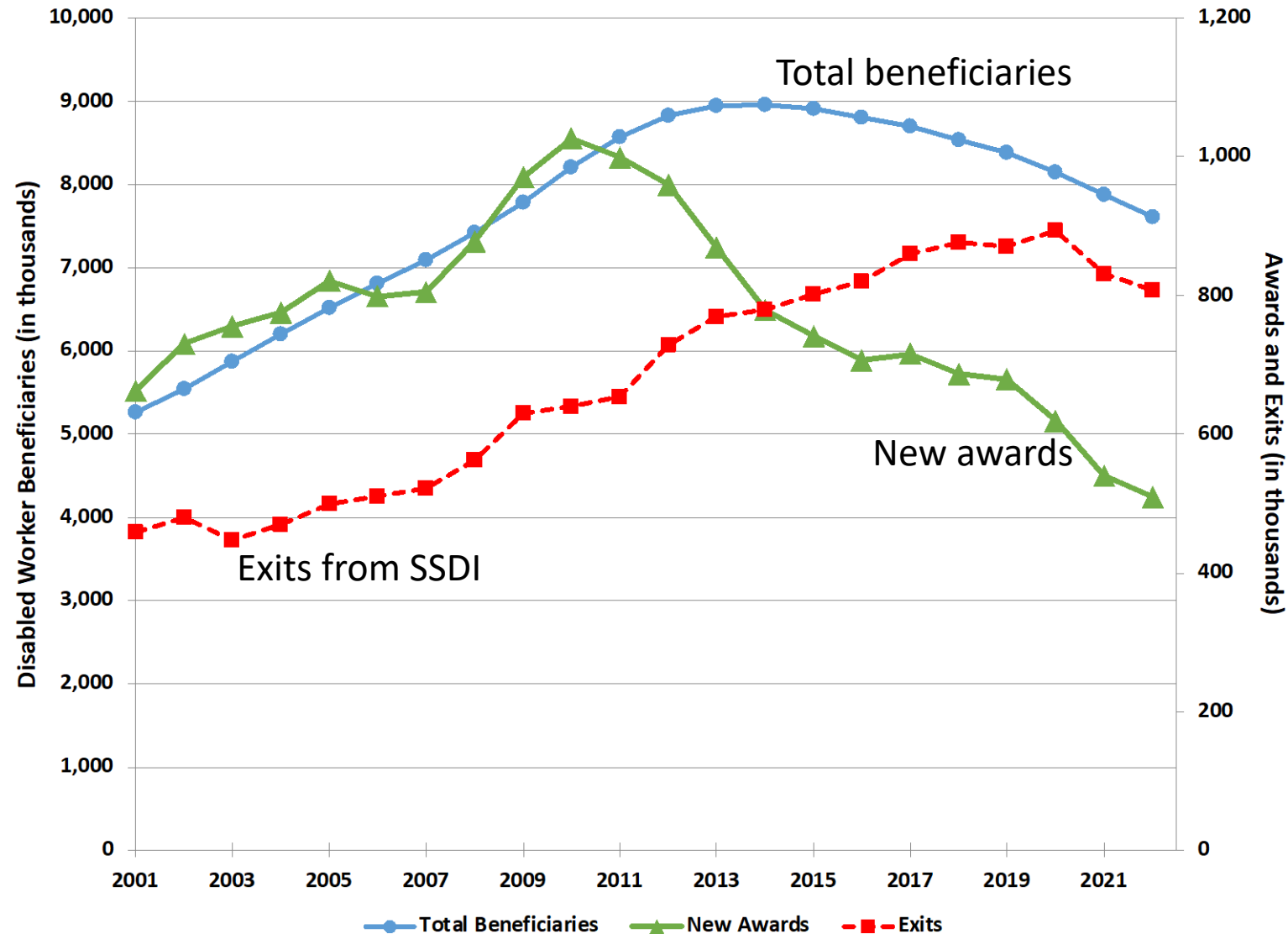


Historic break with trend

Decline in caseload begins in 2014

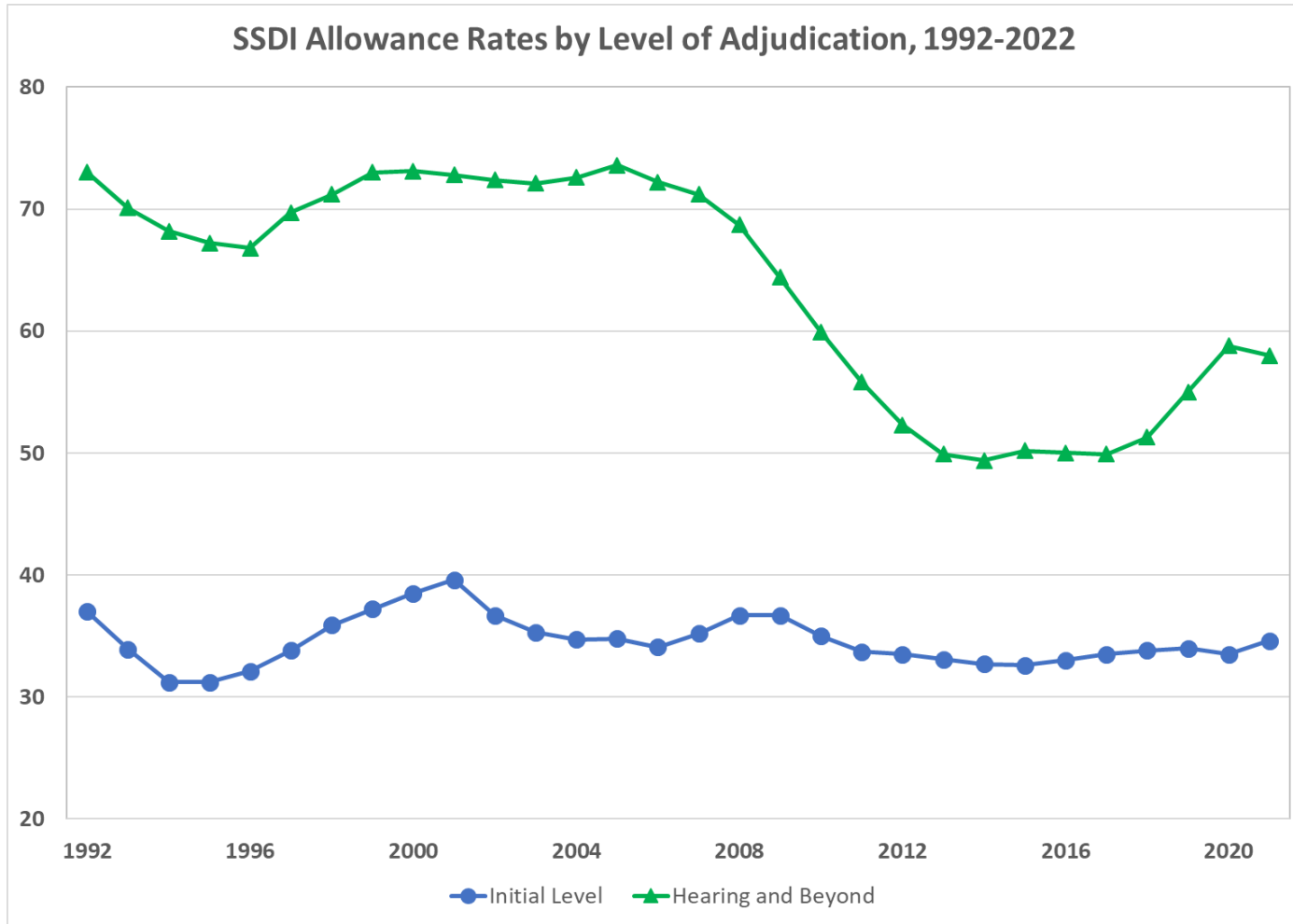
Recent SSDI caseload decline due to **fewer awards** and rising exits

Total SSDI Beneficiaries, Number of Awards and Exits, 2001-2022



Peak in new awards in 2010; declines since

Recent SSDI caseload decline due to fewer awards at appellate level

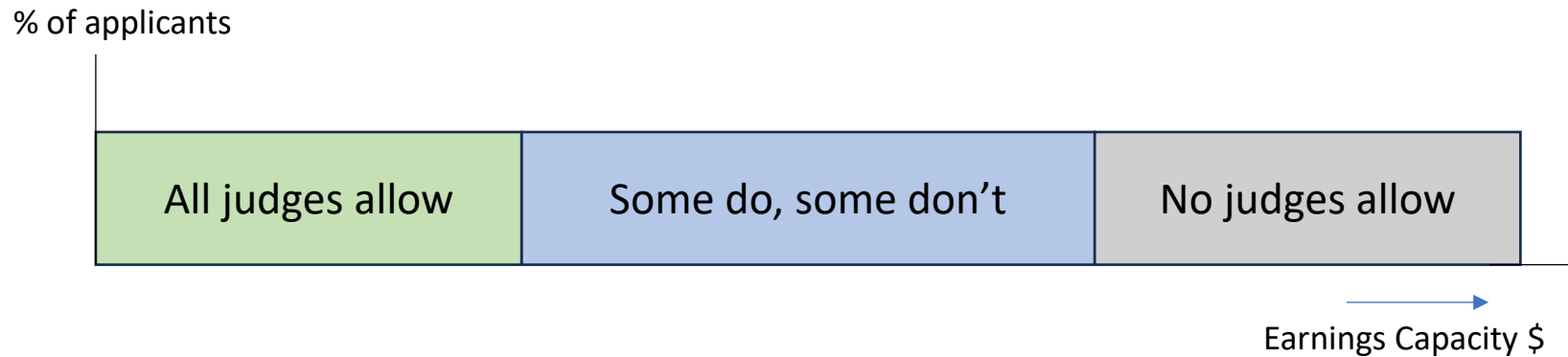


Appellate Allowances
Peak of 74% in 2005;
down to 50% in 2015;
32 percent decline

Initial Allowances
No change during this
period (~32%)

Conceptual Framework and Findings

Targeting – Conceptual Approach



*Changes in this distribution over time
reveal shifts in program targeting*

SSDI rules say:

- If earnings capacity > SGA → Deny
- If earnings capacity < SGA → Allow

But imperfect information means some judges allow and others don't in range around SGA threshold (blue area)

Allowance rate = green area + portion of blue area allowed

Can use Judge IV method to estimate earnings capacity threshold for a given allowance rate

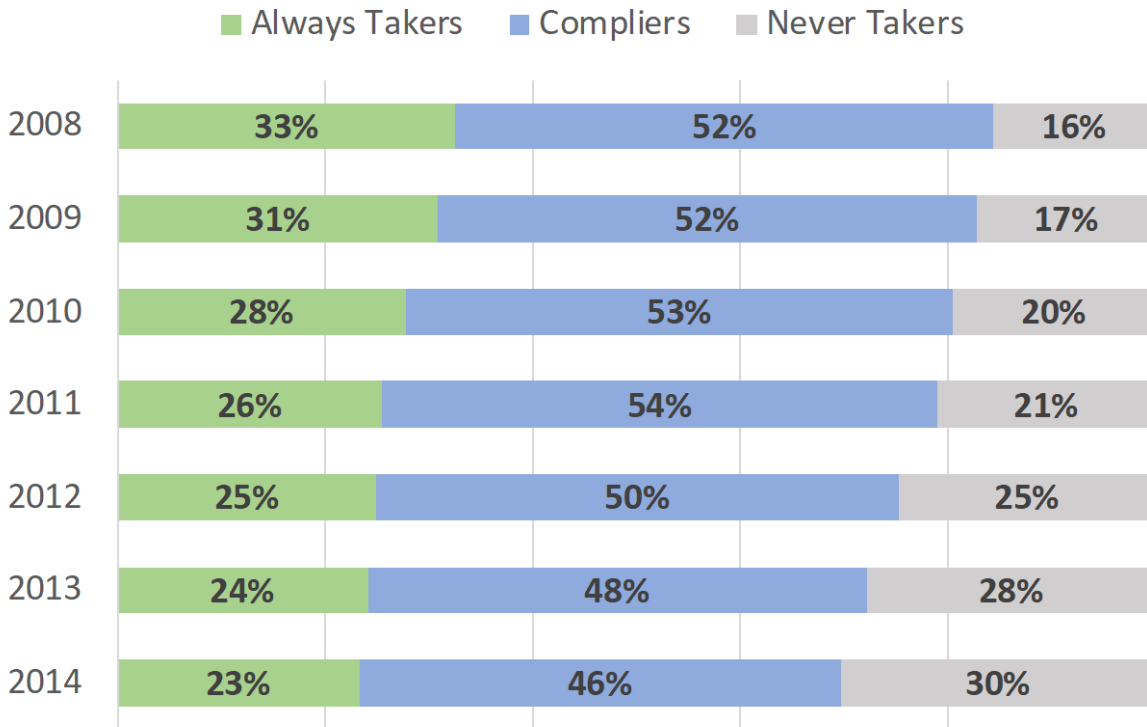
Causal model – Effect of SSDI allowance on labor supply

$$Y_{ijdt} = \alpha + D_{ijdt}\beta + X_{ijdt}\vartheta + \eta_t + \theta_d + \epsilon_{ijdt}$$

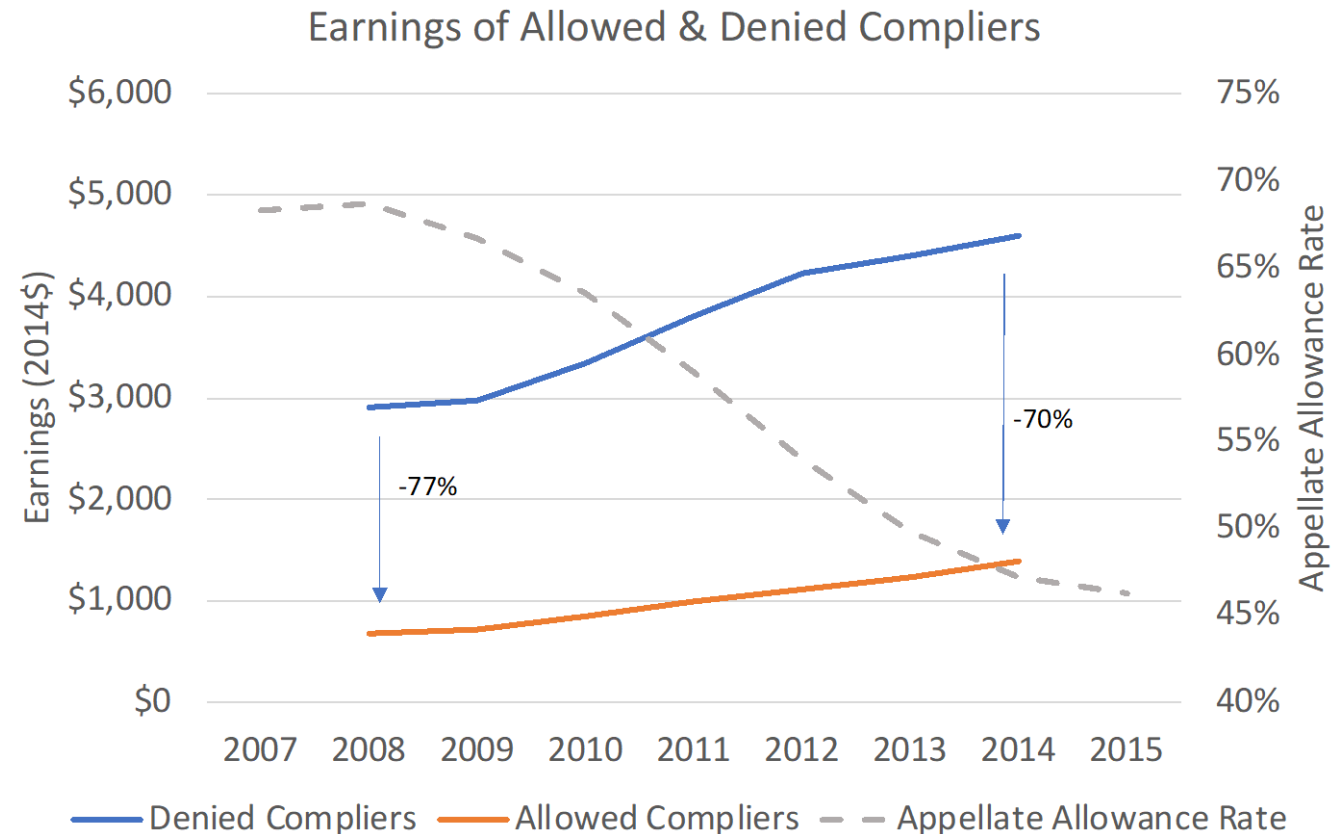
- Y_{ijdt} = labor supply outcome (e.g., earnings, employment)
- D_{ijdt} = 1 if i 's case heard by judge j in hearing office d in month t is allowed (0 if denied or dismissed)
- X_{ijdt} = controls at the person, case, and place level
- θ_d, η_t are office and month fixed effects
- Cluster standard errors on judge

β is counterfactual difference in earnings for someone allowed v. denied; can't estimate using OLS, so we instrument for D_{ijdt} with allowance propensity of judge to which randomly assigned ("Judge IV")

Estimating judge IV by year shows SSDI eligibility margin shifted & narrowed as reform played out



- Complier share falls → eligibility margin narrows, less ALJ discretion
- Fewer “always takers,” more “never takers”



- Treatment effect grows in abs. value but declines in % terms → less work capacity at margin
- People on eligibility margin earning way less than SGA

Mechanisms – SSA Policy Reforms

SSDI policy reforms took 3 forms



Disruption to the **hiring** of Administrative Law Judges (ALJs)



Efforts to reduce the backlog, **Senior Adjudicative Attorneys**



Policy Compliant **Training** to make decisions consistent across judges

Efforts to make decisions more consistent

THE WALL STREET JOURNAL.

U.S.

Three Indicted for Alleged Social Security Fraud Scheme in Kentucky

Government disbursed benefits in excess of \$600 million as result of scheme, indictment says



Attorney Eric Conn during a Senate committee hearing on Capitol Hill in 2013. He has been indicted by a federal grand jury in Lexington, Ky., on charges including conspiracy to commit mail fraud and wire fraud.



Source: Paletta, Damian. 2011. "Disability-Claim Judge Has Trouble Saying 'No': Near-Perfect Approval Record; Social-Security Program Strained." *The Wall Street Journal*, May 11, 2011.

- **May 2011** WSJ reported an ALJ with a 100% allowance rate, all from one attorney
- **July 2011** Congressional hearing
- Before this, SSA began using analytics to assess ALJ policy compliance (Ray & Lubbers 2015)
- Identified common decision errors, outlier judges, incorrect OTR decisions

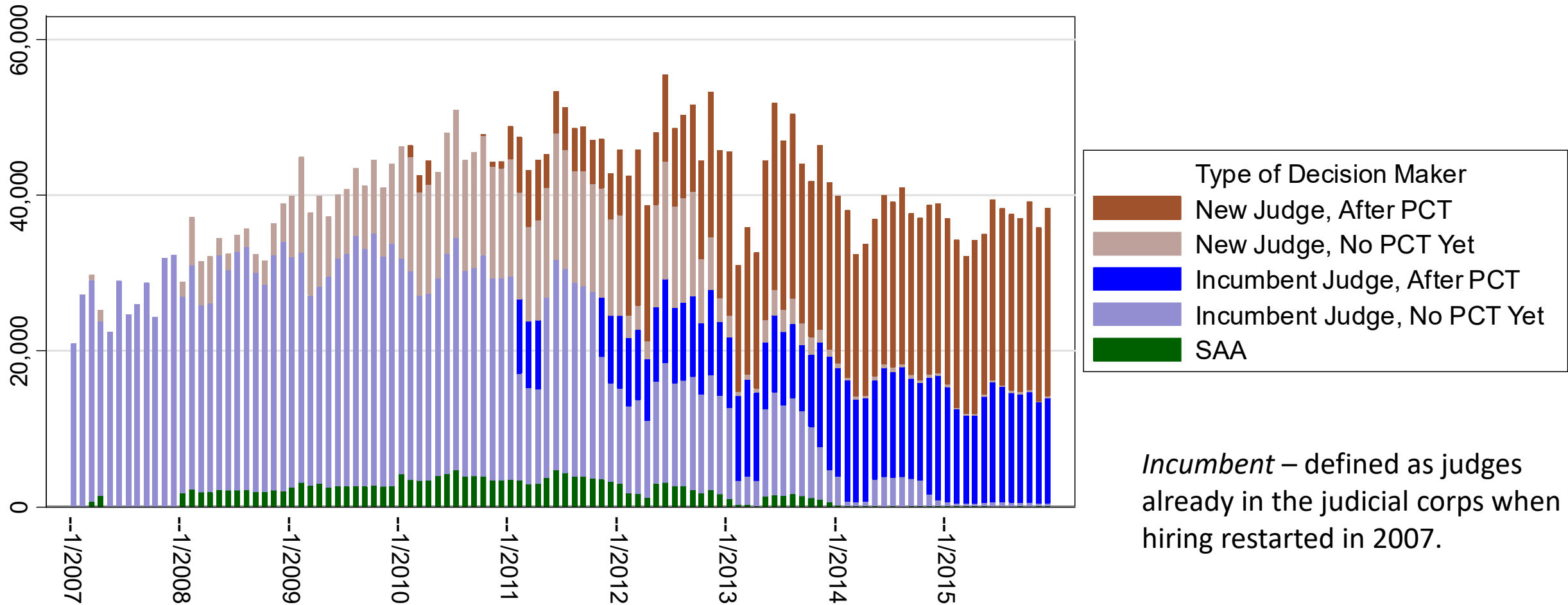
Efforts to make decisions more consistent (cont.)

SSA policy response:

- Rolled out new **policy compliant training (“PCT”)** for all ALJs
 - ALJs hired after July 2010 received updated training at hire
 - Other ALJs received training in rotating fashion over summers of 2011-2013
- Focused reviews of judges who were **outliers, making errors**
 - Feedback to individual judges, to specific offices → could have direct or network effects
- **App** for judges to compare their decision-making with others
 - “How MI Doing” introduced (nationwide) in 2011 - included feedback mechanisms, training modules, and hyperlinks to detailed agency policy information
- Scaled back the **SAA program** (reassigned SAAs to decision writing)

The changing landscape of SSDI appellate decision makers

Number of Appellate Decisions by Type of Decision Maker and Policy Compliant Training



Incumbent – defined as judges already in the judicial corps when hiring restarted in 2007.

Note: PCT=Policy Compliant Training.

What did the reforms do?

- About 30% of applicants had their decision affected by the reforms
- Reforms collectively led to a significant decline in the appellate allowance rate, explaining 28-36% of the 22 pp decline in allowance rates between 2007 and 2015
- Possibly the most important (and least heralded) reforms of SSDI

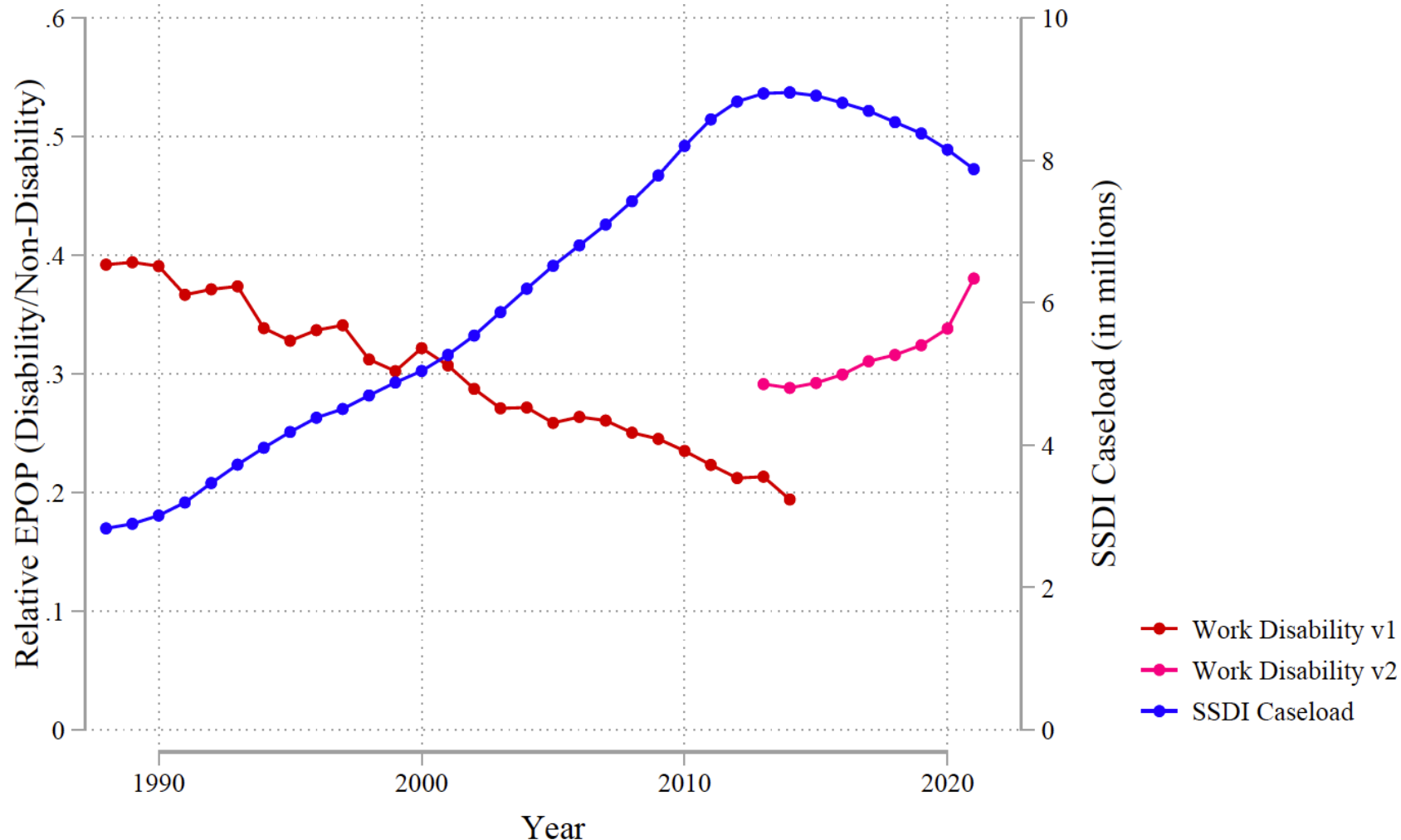
Who did the reforms target?

Outcome	Reform-Denied Compliers	Judge IV-Denied Compliers
Earnings	\$5,552	\$3,800
Earnings > SGA	17.6%	11.9%
Earnings > \$0	37.1%	26.5%

- Over period as a whole, reforms targeted people with relatively more earnings capacity than average applicant on margin
- Even so, their earnings capacity was well below SGA=\$12,800

Implications for Trends in Work among Persons with Disabilities

SSDI reform had little impact on disability employment, despite temporal correlation



Pre-2010, rise in DI & decline in work among people w/ disabilities spurred large literature on causal effect of DI on labor supply

Recently, we see decline in DI & rise in work among people w/ disabilities

But our estimates imply SSDI reform explains ~4% of increase in disability employment since 2010

Conclusions

- The decline in appellate allowance rate has contributed to the decline in SSDI caseload
- As the allowance rate declined, the eligibility threshold declined, and the SSDI program became stricter
- Those on current eligibility margin have earnings capacity far below the SGA target
- Even though SSA's administrative policy reforms targeted applicants with relatively greater earnings capacity, the eligibility threshold was already below the SGA target, and reforms moved it further away