



## Eligibility for Social Security Disability Insurance

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### Executive Summary

Researchers and policymakers have been interested in the extent to which older workers who are in poor health may use Social Security Disability Insurance (DI) as a path out of the labor force. Another path such workers might take is early Social Security retirement. This has raised the question of what effect raising the age of early retirement might have on applications for DI. It is possible that older workers in poor health might apply for DI rather than waiting for delayed Social Security benefits. Identifying the characteristics of those who are and are not eligible for DI can provide policymakers with insight regarding the well-being of the “at risk” population.

This *Issue in Brief* describes an empirical investigation using data from the University of Michigan Health and Retirement Study (HRS) linked with administrative earnings records for a cohort of individuals nearing retirement. We compare two groups in late middle age: those who are insured for DI and those who are not. We explore differences between these two groups in socioeconomic and health characteristics. We find that, while the safety net program covers most American workers, a substantial group of older women remains without coverage. The finding has two implications: first, the program is not helpful to all workers reaching their late 50s and early 60s with health problems. Second, many individuals would not be able to receive DI in the event of an increase in the early eligibility age.

## Eligibility Rules

American workers earn “Quarters of Coverage” (QCs) based on annual Social Security payroll tax contributions. Eligibility for Social Security retirement benefits requires that a worker must have earned 40 QCs over her career, a total that can be earned in as few as ten years. Once a worker acquires 40 QCs they are “Forever Fully Insured (FFI). Eligibility requirements for disability insurance are a bit more complex. In what we call Test 1, or the recency condition, if the worker is over 30 she must have at least 20 QCs in the last 10 years; if she is younger than 30, her QCs must total at least her current age minus 22 and times 2. In Test 2, the “fully insured” test, her total QCs at any age must be at least equal to her current age minus 22. For test 3, she must have at least 6 QCs by a given age.

A given worker could be both forever fully insured and disability insured, either, or neither. As a result of these program rules, workers may move into and out of DI eligibility over their lifetimes, depending on their work patterns.

## The Data

To understand how these rules interact with actual workers’ employment patterns, we used data from the University of Michigan Health and Retirement Study (HRS), a nationally representative panel survey of older Americans. These data can be linked to administrative earnings records, allowing us to compute respondents’ eligibility status for benefits as well as the likely benefit amounts a worker would receive. We are also able to include information on employer benefits (pension, health and disability insurance), personal wealth, and health status. Our sample excludes respondents who are over age 60 in 1992.

## Summary of Major Findings

### Who is Eligible for DI and Who is Not?

#### *Patterns for Men*

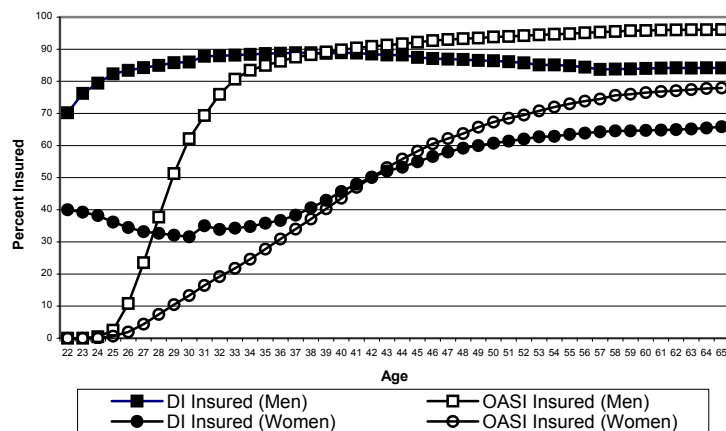
- Young men tend not to be forever fully insured (FFI). During their middle 30s, however, the vast majority of men—over 80 percent become fully insured, with the tally inching up to 100 percent later in life.
- Men’s disability insurance (DI) pattern is different. Over 70 percent attain DI coverage by their early 20s, and coverage rates rise gradually to about 90 percent as men approach their mid 40s. After that, DI coverage falls back a bit and levels off, as work patterns become more erratic in the 50s and 60s.
- There are no significant differences in either FFI or DI coverage between married and nonmarried men.

#### *Patterns for Women*

- The patterns for women are quite different, as Figure 1 shows. FFI status for women, as for men, starts low at young ages. However, women’s rates of coverage rise gradually, reaching 50 percent by age 50 and continuing to steadily rise until age 65. Even at older ages, however, women are 20 percentage points less likely to be forever fully insured than men.

- The sex difference in DI rates is even more striking. Women’s coverage for DI stands at only 40 percent at young ages, and falls to around 30 percent through the 30s. Coverage then rebounds somewhat in the 40s, when market work again becomes significant in many women’s lives. Rates of DI coverage reaches a high of about 65 percent later in life, about 20 percentage points lower than that for men.
- Married women have much lower levels of FFI and DI insurance than do nonmarried women. Even among non-married women, however, the peak DI coverage rate of 70 percent at older ages is substantially lower than for men.

Figure 1: Percent DI and OASI Insured by Age and Sex  
 Source: Authors’ calculations using HRS analysis sample (see text)



### Reasons for Ineligibility

- Of the respondents who are ineligible, the predominant cause is failure to meet Test 1, the recency condition. This cause of ineligibility continues to be a substantial barrier even at older ages.
- Test 2, the fully insured test, eliminates almost 30 percent of younger workers, both men and women. In later years, fewer men are eliminated by this test, but many women continue to fail this condition. Some 60 percent of women who are ineligible still do not meet this requirement in their 50s and 60s.
- Test 3 has the least “bite” for both men and women, although some 15 percent of women do not meet this most lenient condition even by their mid-60s.

### Which Factors are Most Important for Coverage?

To better understand patterns of coverage, we use age, race and ethnicity, education, sex, marital status and history, number of children, income and wealth, and a range of health variables simultaneously to try to predict who is DI insured. Thus, the findings for each individual factor reported below are reported after holding other factors constant.

- Age has a negative effect on the probability of being DI insured.

- Married respondents are more than 10 percentage points less likely to be covered.
- Ever being divorced increases the probability of being DI insured.
- The number of children in the household reduces the chances of DI coverage.
- Women are much less likely to be insured than men overall.
- Hispanics are somewhat less likely to be covered than whites, but blacks are no less likely than whites to be DI insured.
- Workers with higher incomes and greater wealth are more likely to be DI insured.
- Across several different measures of health status, older workers suffering health problems are less likely to be DI insured, despite potentially having a greater need for such benefits than healthier workers.

Further tests show that the negative effects of marriage, divorce, and the number of children on DI coverage hold only for women. Further analysis also implies that black and Hispanic women are *more* likely to be DI insured, possibly because of their

greater work participation compared to white women; on the other hand, black and Hispanic men are *less* likely to be insured than white men. The effect of poor health appears to work the same for both men and women.

Finally, workers who are not DI insured and also report being in poor health comprise 9 percent of the total sample. This group of workers is worse off than their counterparts on several other measures of well-being. Of those who are not DI insured and report a work limiting disability, 28 percent are insured for retirement benefits and report their disability as preventing work. In the event of an increase in the early eligibility age, these disabled workers could not receive DI as a substitute for Social Security early retirement benefits.

## Conclusion

This research examines patterns of coverage for DI in a group of workers nearing retirement. A significant number of Americans-- about 20 percent of women in later life--are uninsured for disability under Social Security. Family structure seems to play an important role in the insured status of women but has little effect for men. It appears that marriage and childbearing, in this cohort of workers at least, make women more susceptible to losing DI insurance coverage than men. Wealth, income, and good health improve the likelihood of being DI insured for both men and women.

Of particular concern is our finding that those who are in poor health and are not DI insured have the lowest levels of financial well-being. Determining what fraction of these workers

might qualify for supplemental income benefits (SSI) and how this might affect their well-being is a topic deserving of future research. Nonetheless, our findings give rise to questions as to how well the safety net works for older infirm workers, since those who are in poor health are less likely to be insured. A small percentage of particularly vulnerable workers with health problems who are eligible for retirement benefits but not DI would be especially vulnerable to early eligibility age increases. Our future work will closely examine that process of application for DI benefits, accounting for the patterns of eligibility we find here.

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