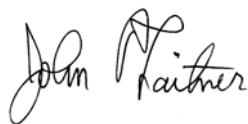


Director's Corner

Commissioner Barnhart's testimony last fall before the Ways and Means Committee highlights concerns about delays and appeals in Social Security Disability Insurance claim processing. MRRC researchers have long had an interest in Disability Insurance and in interactions between Social Security disability and retirement programs.

Earlier, MRRC researchers John Bound and Julie Cullen provided evidence that the SSDI program seems to offer a fairly satisfactory level of coverage (www.mrrc.isr.umich.edu/research/publications/Brief/ib_024.pdf). Recent work by Olivia Mitchell and John Phillips featured in this newsletter, however, examines the lengthy and somewhat arduous eligibility determination process for disability claims and suggests that in some cases, people in greatest need may not be eligible for disability benefits. Other work by MRRC researchers Elizabeth Powers and David Neumark featured in this issue studies the interdependence of Social Security programs, suggesting that changes in one program may have implications for others.

MRRC will continue to support research addressing important policy issues related to Disability Insurance, and program interactions, simulating potential program changes, and studying possible behavioral implications of modifications to retirement programs. Findings from this kind of research will have important implications for solvency of the system.



Director MRRC

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Issue in Brief

Eligibility, Applications, Denials, and Appeals for Social Security Disability Insurance

by Olivia S. Mitchell and John W. R. Phillips

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 workers who might seek to use Social Security disability insurance 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. With these linked data, we examined the sociode-

mographic and health characteristics of workers along the continuum of eligibility, application, denial, and appeal for disability benefits. Regarding eligibility, we find that, while the safety net program covers most American workers, a substantial group of older women remains without coverage. We find that older people in poor health and with low economic status are more likely to apply for DI, as compared to those reporting no health problems and with more assets. Few factors distinguish between applicants awarded versus denied benefits and between those who appeal rejected applications versus those who do not.

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.

Medical Eligibility: The Disability Determination Process

The Social Security definition of disability can be characterized by three factors:

- The applicant must have a medically determinable impairment;
- The impairment must be expected to last at least 12 months or result in death;
- The applicant must be unable to engage in “substantial gainful activity” due to impairment, considering age, education and work experience.

Whether a worker is determined to be disabled, under the Social Security definition, is established by the Disability Determination Services (DDS). A five-step process determines benefit eligibility using the criteria listed above. Overall, an application is rejected if 1) the applicant earns \$700 or more per month, 2) the condition is determined not severe enough to limit the applicant’s capacity to perform work, 3) the condition is not on the SSA list of disabling conditions or the condition is not judged to last at least 12 months, 4) the condition does not prevent the applicant from performing his old job, and 5) the applicant could participate in other occupations with this condition given his/her education, age, and work experience

Appeals

If an applicant is denied benefits, he may appeal the DDS decision. This appeal process has several stages, like the disability determination process. Each stage of appeal must be performed within 60 days of judgment. The rejected applicant may request reconsideration by the DDS. The DDS reconsiders the application. If the appellant’s claim is again rejected by the DDS, he may request a hearing before an administrative law judge. Should the ALJ deny the appeal, an appellant can request review by an Appeals Council. Both the Appeals Council and the ALJ operate within the Social Security Administrations Office of Hearings and Appeals. Should both the ALJ and the Appeals Council deny the claim, the last avenue for appeal is in U.S. Circuit Court of Appeals.

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 (FI). 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. 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 nonmarried women, however, the peak DI coverage rate of 70 percent at older ages is substantially lower than for men.

Reasons for Ineligibility

- Of the respondents who are ineligible, the predominant cause is failure to meet the recency condition. This cause of ineligibility continues to be a substantial barrier even at older ages.
- 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.

Which Factors are Most Important for Coverage?

- Women are much less likely to be DI insured than men.
- 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. This holds true for both men and women.
- 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.

Who Applies for DI?

Over an 8-year period of observation 8 percent of respondents applied for DI benefits. Of these, about half were initially awarded benefits. Of those who applied and were rejected, about half appealed. Of those who appealed, 44 percent were subsequently awarded benefits. Thus 8 percent of respondents applied, and ultimately 60% of these applicants were awarded benefits.

Accounting for relevant baseline characteristics such as age and occupation, we find that older workers who are poorer, in worse health, and have less education are the most likely to apply for DI benefits.

Who is Awarded or Denied Benefits?

Although we expected that the same workers who were more likely to apply (poorer and in worse health) would also be more likely to be awarded, we did not find this to be the case. In fact, there were few statistical differences between those awarded and denied benefits. Workers with a middle level of lifetime Social Security earnings were more likely to be awarded than those with high lifetime earnings.

Who Appeals and Who is Awarded on Appeal?

We expected that those with more to gain by appealing (with lower income and wealth) would be more likely to appeal. However, we found little to distinguish those who appealed from those who did not. Higher non-Social Security wealth was associated with award upon appeal and more black applicants appear to be awarded through appeal than through initial award.

Conclusion

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. In general we find strong evidence that workers who were initially poor, in poor health, and had fewer years of education were more likely

to apply for DI benefits, but few factors differentiate individuals beyond the application phase. Even collapsing initial and secondary DI awards into a single award category yielded similar results. One caution should be noted. Although the initial sample size was quite large, recall that only 8 percent applied for DI benefits. This reduced the sample to such a degree that our power to explain differences between those who were awarded and denied and then between those who did and did not appeal may be limited.

Some Social Security reform proposals posit that raising the early retirement age under Social Security could improve the system's solvency. However this would also alter the opportunity set available to older workers. If some early retirees respond to the policy by applying for DI benefits, Trust Fund savings are mitigated. Our research identifies the characteristics of older workers who apply for DI under current rules, those who are rejected after application, and those who then go on to appeal, which provides policymakers with insight regarding the potential well-being of the "at risk" population if the early retirement age were to be raised. Our future work will incorporate results from this study into more elaborate models of Social Security benefit take-up patterns.

Issue in Brief

The Supplemental Security Income Program and Incentives to Claim Social Security Retirement Early

by Elizabeth T. Powers and David Neumark

Executive Summary

The Supplemental Security Income (SSI) provides a uniform federal safety net for the elderly and disabled. SSI benefits combined with supplemental state benefits potentially comprise a substantial source of income for the elderly poor. Because many elderly SSI recipients also receive Social Security, characteristics of the SSI program may influence use of social security, and vice versa. One interesting question is whether the design of SSI encourages "early retirement" in the Social Security system. In this *Issue in Brief*, we provide results of an investigation of this potential SSI-Old Age Insurance (OAI) program interaction. Because SSI is a welfare program, this topic is of general interest for understanding the retirement process of very low-income people and the potential supports that enable their retirement. It may also be helpful in un-

derstanding how ongoing and planned changes in the social security system affect the lowest-income beneficiaries.

To study this question, we use multiple panels of the Survey of Income and Program Participation (SIPP) that are linked to confidential Social Security Administration (SSA) data. We develop three types of evidence on the issue of whether SSI encourages earlier OAI claiming. First, we examine how the structure of SSI affects the financial return to delaying retirement from age 62 to the full retirement age (65 in our sample era). Second, we look for patterns in the timing of SSI and OAI first claims that suggest complementary program use. Finally, we estimate the probability of an early OAI claim as a function of SSI status and other household characteristics. We find that SSI recipients face quantitatively important financial incentives to claim OAI early; that SSI applications appear to vary with eligibility for OAI at age 62; and that SSI-aged program applicants are substantially more likely to make an early OAI claim, even holding family structure, health status, education, and expected Social Security replacement rates constant. While we stop short of claiming to have demonstrated a "causal" effect, due to data limitations, a credible case is made that program interactions plausibly affect retirement in unintended ways.

Supplemental Security Income

Sufficiently low income and asset units (individuals or couples) may receive SSI beginning at age 65. Benefits are equal to a maximum benefit amount minus one-half of monthly earned income over \$65, all of unearned income over \$20, and all of means-tested transfer income. For example, for a unit with monthly income of \$165 from earnings, \$50 from social security, and \$100 from Veterans' Benefits, a total of \$85 per month will be disregarded, and the unit will keep an additional \$50 of earned income. Therefore, the benefit is determined by subtracting \$135 from the maximum monthly SSI benefit.

Although people become eligible for SSI at age 65, the program can affect work effort and OAI claims earlier in life. In general, SSI likely decreases labor force participation--as we have shown in past work--because of very high implicit taxes on pension income (i.e., 100% above the \$20 disregard). The asset test in SSI also discourages the additional work one would need to generate retirement savings. A separate issue is that the standard disincentive for individuals to make early OAI claims --the actuarial reduction in OAI benefits--is nullified at age 65 by the SSI program. In effect, SSI rules turn a permanent

"penalty" for early retirement into a temporary state of affairs, lasting only until age 65. All of these features tilt the balance towards earlier OAI claiming. The empirical portion of our paper attempts to characterize just how much.

Data

To test our theoretical prediction, we used interview data from the Survey of Income and Program Participation (SIPP) for 1984, 1990, 1991, 1992, 1993, and 1996. SIPP data come from large, nationally representative groups of households. We restrict attention to male-headed units (see our paper for a discussion of the special issues with women). We also use SSA records matched to SIPP data on SSI applications and payments, OAI eligibility status, OAI benefits, and social security earnings histories. Given this information, we can determine household characteristics, the incidence and timing of application to SSI, whether these applications were successful, and the timing of OAI receipt.

Descriptive Information on SSI and OAI Claimants

We first establish that OAI is a relevant concern for many SSI units. In fact, nearly 90% of our sample men who have an SSI application on record have some Social Security covered earnings since 1951. Of the group with any covered earnings, 61% are computed to be eligible to claim OAI at age 62 (i.e. have amassed 40 or more covered quarters by age 62). Therefore, it is plausible that the use of OAI and SSI may be interrelated for a significant share of aged men in SSI.

Another plausibility issue is whether our sample men take up SSI near to age 65. Our theory suggests that they should; once early OAI is taken, to delay SSI receipt is simply to stretch out the "punishment phase" (i.e., suffering the actuarial reduction) for early OAI. In general, we find that SSI payments are strongly age-dependent, with a spike at age 65. The number of people receiving their first payment at age 65 is five times larger than the number receiving a first payment at age 62, and three times larger than the number at age 66. Looking more specifically at the relationship between early OAI and SSI claiming, we show that the age-pattern of SSI receipt for men who are eligible for OAI at age 62 is more compressed around age 65 than for men who are not eligible for early OAI.

Major Findings

We provide two pieces of specific evidence on the quantitative importance of the incentives to take early OAI under SSI. First, we estimate the financial loss from delaying the OAI claim from age 62 to age 65, given use of the SSI program at 65. We find that SSI recipients on average face a very large loss of 7% per annum in old age transfer wealth because of the design of the SSI system.

The second thing we do is to estimate the probability of an early OAI claim as a function of SSI-aged applicant status, controlling for other important factors (age-in-sample, birth cohort, marital status, education, race, the state unemployment rate, spouse age and spouse covered quarters, and the age-62 Social Security benefit replacement rate). The major finding is that among the group of men that is eligible for OAI at age 62, the individuals in aged units applying to SSI are 24%-points more likely to have entered OAI early. While we find this figure plausible given the very large financial penalties to delaying retirement under SSI, we cannot rule out a competing hypothesis that early contact with SSA through OAI is an important means for learning about the SSI program with the available data.

Conclusion

This paper builds on our previous work, which found that SSI program rules significantly influence household behavior prior to the SSI eligibility age of 65. Quite aside from behavioral issues, the evidence presented here suggests lessons for program design. Welfare systems can unintentionally build in perverse financial penalties when they interact with other programs used by the same population. Changes in program design that would better integrate SSI and social security, such as giving SSI recipients greater credit for their social security contributions (Burkhauser and Smeeding, 1981), would reduce the SSI-induced differential in the financial terms of delaying retirement. (Alternatively, if it is thought that the impoverished elderly gain too many resources by exploiting both OAI and SSI, penalties for early retirement similar to those under OAI could be extended to SSI). Aside from changing the programs, if policymakers want impoverished groups to rely on government transfers in their early 60s, and if—as seems likely—not all potential beneficiaries take account of the SSI-OAI interaction—then SSA could advise all households with low social security earnings histories that under SSI it may be advantageous for them to make an early OAI claim.

Conference on Social Insurance Programs

The MRRC provided funding for the conference, Improving Social Insurance Programs, that was held at the University of Maryland College Park on September 13th and 14th. The program was organized by John Rust of the University of Maryland, John Laitner, MRRC Director, and Robert Willis of the University of Michigan.

Multiple sessions met concurrently over the two days of the conference. The program is listed below. Papers from the conference are available on the MRRC website (www.mrrc.isr.umich.edu/conferences/ISIP/isip.htm).

Session 1: Political Economy of Social Security

Organizer: Michele Boldrin, University of Minnesota

Chair: Michele Boldrin, University of Minnesota

Inequality, Social Mobility, and the Welfare State: A Political Economy Model

Gulcin Gumus, IZA, Institute for the Study of Labor
Will Social Security and Medicare Remain Viable as the U.S. Population is Aging? An Update

Henning Bohn, University of California
The "Political Risk" of Social Security and Individual Pension Accounts:

John Turner, AARP Public Policy Institute

Session 2: Empirical Dynamic Programming Models of Retirement Behavior

Organized and Chaired by John Rust

Social Security, Pensions and the Savings and Retirement Behavior of Households

H. Van der Klaauw, University of North Carolina at Chapel Hill

The Effects of Health, Wealth and Wages on Labor Supply and Retirement Behavior

Eric French, Federal Reserve Bank of Chicago
A Dynamic Programming Model of Old-age and Disability Pension System

Presented by: Anders Karlström, Royal Institute of Economics

Session 3: Estimating The Impact of Federal Disability

Programs: Theory and Empirical Evidence

Organizer: Mark Duggan, University of Maryland

Chair: Mark Duggan, University of Maryland

Employing Those Not Expected to Work: The Stunning Changes in the Employment of Single Mothers and People with Disabilities in the United States in the 1990s

David Stapleton, Cornell Center for Policy Research
How Large Are the Classification Errors in the Social Security Disability

Moshe Buchinsky, UCLA

The welfare implications of increasing DI benefit generosity

Julie Cullen, University of Michigan

Session 4: Empirical Studies of Unemployment Insurance in Scandinavia and Netherlands

Organizer: John Rust, University of Maryland

Chair: Arie Kapteyn, RAND

Voluntary Unemployment Insurance

Donald Parsons, George Washington University

The effect of Dutch active labour market programs on the duration of unemployment

Arjan Heyma, University of Amsterdam

Session 5: Invited Lecture

Organized and Chaired by John Rust

The Social Security Early Entitlement Age in a Structural Model of Retirement and Wealth

Thomas Steinmeier, Texas Tech University

Session 6: Invited Lecture

Organizer: John Rust

Chair: Hugo Hopenhayn, UCLA

Elimination of Social Security in a Dynastic Framework

Selahattin Imrohorglu, University of Southern California

Session 7: Invited Lecture

Organized and Chaired by John Laitner, University of Michigan

The German pension system: How it was, and how it will be

Axel Borsch-Supan, University of Mannheim

Session 8: Social Security Reforms in Italy and Spain

Organizer: John Laitner, University of Michigan

Chair: Michele Boldrin, University of Minnesota

The social security reform process in Italy: where do we stand? Vincenzo Galasso, IGIER - Università Bocconi
Public-pension reforms and announcement effects: the Italian experience in 1992

Marika Santoro, University of Rome Tor Vergata and University of Minnesota

An evaluation of the life-cycle effects of minimum pensions on retirement behavior

Sergi Jimenez-Martin, Pompeu Fabra University
Endogenous Retirement and Public Pension System Reform in Spain

Alfonso Sanchez-Martin, Imperial College London

Session 9: Health Insurance, Medicare, Retirement, and Long Term Care

Organizer: John Rust, University of Maryland

Chair: Kenneth Wolpin, University of Pennsylvania

Health Insurance and Retirement

Donna Gilleskie, University of North Carolina
Some Life-cycle Consequences for Men of Being Medicare-less: An Analysis of Medicare

Ahmed Khwaja, Duke University

Long Term Care, Formal Home Health Care, and Informal Care

Steven Stern, University of Virginia

Session 10: Empirical Studies of Retirement, Partial Retirement and Mandatory Retirement

Organized and Chaired by Hugo Benitez-Silva, State University of New York

The End of Mandatory Retirement in the US: Effects on Retirement and Implicit Contracts

Till von Wachter, University of California at Berkeley
Joint Retirement Expectations Formation of Married Couples
Debra Dwyer, SUNY Stony Brook

On Expectations, Realizations and Partial Retirement
Mauro Mastrogiacono, Tinbergen Institute Amsterdam

Session 11: Analyzing Social Security Reforms with OLG Models

Organizer: John Laitner, University of Michigan

Chair: John Laitner, University of Michigan

Intergenerational Risk Sharing and Fiscal Policy

Henning Bohn, University of California
Aging in OECD Countries and Capital Flows into Developing Countries: A Policy Analysis using an Overlapping Generations Model.

Lakshmi Raut, Cal State Fullerton
Social Security Reform in an Economy with Population Aging
Shinichi Nishiyama, Congressional Budget Office

Session 12: Invited Main Lecture

Organizer: John Rust, University of Maryland

Chair: John Laitner, University of Michigan

Fixing Social Security and Medicare for Good

Laurence Kotlikoff, Boston University

Discussants:

Kent Smetters, University of Pennsylvania

Axel Borsch-Supan, University of Mannheim

Peter Orszag, The Brookings Institution

Session 13: Invited After Dinner Talk

Organizer: John Rust, University of Maryland

Using Social Experiments to Validate Dynamic Behavioral Models

Kenneth Wolpin, University of Pennsylvania

Session 14: Alternative Approaches to Microsimulation

Organizer: John Rust, University of Maryland

Chair: John Rust, University of Maryland

Toward Behavioral Realism in Retirement Models: From Microsimulation to Agent-Based Modelling

Robert Axtell, The Brookings Institution

Overview of PENSIM Methods and Results

Martin Holmer, Policy Simulation Group

Analyzing Social Security Reform Using Stochastic Microsimulation

John Sabelhaus, CBO

An Overview of Microsimulation Models at SSA's Office of Policy

Joyce Manchester, Social Security Administration

Session 15: Social Security and Risk

Organizer: Selahattin Imrohorglu, University of Southern California

Chair: Selahattin Imrohorglu, University of Southern California

The Equity Premium and the Baby Boom

Robin Brooks, IMF

Sharing Financial Risks across Non-Trading Generations: A Decentralized Alternative to Government Ownership of Private Equities

Kent Smetters, University of Pennsylvania

Pareto Improving Social Security Reform when Financial Markets are Incomplete!?

Dirk Krueger, Stanford University

Session 16: 401K Plans, Savings, and Annuitization Decisions

Organizer: Alan Gustman, Dartmouth College

Chair: Hugo Benitez-Silva, State University of New York

Benign Paternalism and Active Decisions: A Natural Experiment in Savings

Brigitte Madrian, The Wharton School

The Effect of Unemployment on 401(k) Contributions and Saving

David Love, Williams College

Annuitization: Keeping Your Options Open

Anthony Webb, International Longevity Center

Micro Determinants of Labor Force Status Among Older Americans

Hugo Benitez-Silva, State University of New York

Session 17: Designing Efficient Social Insurance Programs

Organized and Chaired by Hugo Hopenhayn, UCLA

Optimal Unemployment Insurance in an Estimated Job Search Model with Savings

Rasmus Lentz, Boston University

Designing Optimal Disability Insurance

Aleh Tsyvinski, UCLA

Efficient Allocations with Moral Hazard and Hidden Borrowing and Lending

Arpad Abraham, Duke University

Session 18: Invited Lecture

Organizer: John Rust, University of Maryland

Chair: V.V. Chari, University of Minnesota

Disability insurance and redistribution

Hugo Hopenhayn, UCLA

Optimal Unemployment Insurance with Sequential Search

Ivan Werning,

Session 19: Invited Lecture

Organizer: John Rust, University of Maryland

Chair: Selahattin Imrohorglu, University of Southern California

Social Security Reform and Intertemporal Smoothing

Michael Pries, University of Maryland

Session 20: Invited Lecture

Organizer: John Rust, University of Maryland

Chair: Laurence Kotlikoff, Boston University

The Intergenerational State: Education and Pensions

Michele Boldrin, University of Minnesota

Barnhart Seeks to Improve Disability Determination Process

In September 2003, Commissioner of Social Security, Jo Anne Barnhart, presented an approach to improving the disability determination process that would shorten decision times, pay benefits to people who are obviously disabled much earlier in the process and test new incentives for those with disabilities who wish to remain in, or return to, the workforce.

Commissioner Barnhart's approach is the result of more than a year and a half of study and discussions with groups involved in the disability process – including Social Security employees from across the country, state Disability Determination Services (DDS), Administrative Law Judges (ALJs), health care providers, the federal courts, claimant attorneys and representatives, claimant advocacy groups, Members of Congress and concerned members of the public.

Under the current process, it takes an average of 628 days for a Social Security disability application that is denied and appealed at each step to reach final agency action. (To read more about the current disability process and associated delays, visit www.socialsecurity.gov/disability/disability_process_welcome.htm).

None of the suggested changes would require legislative action; none would adversely affect the employment status of current Social Security or DDS employees.

Commissioner Barnhart's approach is predicated on successful rollout of the Accelerated electronic Disability process (AeDib). AeDib creates an electronic folder for the claimant's application, medical information and other data. AeDib will eliminate numerous time delays and financial costs related to locating the paper file, maintaining its contents and mailing them from office to office. The Social Security Administration is currently piloting AeDib in three states, and will phase in its use nationwide during an 18-month roll-out.

At a hearing before the House Ways and Means Subcommittee on Social Security, Commissioner Barnhart described highlights of her approach. They include:

- **The establishment of expert units and screening for “quick decision.”** New medical expert units would be organized by areas of clinical specialty (e.g., orthopedic, pediatric, psychiatric) and located in Social Security Regional offices. These units would provide assistance for disability decision makers at all levels of the determination process (DDS examiners, ALJs, etc). Through a “quick decision” process, these units would screen claims for applicants who are obviously significantly disabled (e.g., ALS, end-stage renal disease, aggressive cancers) and approve them before they are sent to a state DDS.
- **DDS examiners would be required to more fully document and explain the basis for a decision to deny a disability claim.** The DDS reconsideration stage of the current appeal process would be eliminated. Federal Disability Quality Branches, which presently review DDS decisions, will be replaced by an in-line quality review and a centralized quality control. As a result of “quick decision” and elimination of reconsideration, the DDS would be able to devote freed-up resources to better documentation of decisions.
- **The creation of the Federal Reviewing Official position.** If a claim is denied by the DDS, the claimant would be able to ask for an independent review by a Federal Reviewing Official. The Reviewing Official, an attorney, after a thorough examination of the record, would either approve or deny the claim. If the claim is not allowed, the Reviewing Official would prepare a written report outlining the reasons the claim should be denied or outlining the evidence needed to successfully support the claim. This report would be provided to the claimant. If the Reviewing Official's decision is appealed, a *de novo* hearing would be scheduled before an ALJ, who would also receive a copy of the report.
- **Closing the record following the ALJ hearing.** Following a hearing, the ALJ will issue a written opinion explaining the basis for the decision, and the record will be closed. The Appeals Council stage of the current process is eliminated.
- **Quality control for disability claims will be centralized, with end-of-the-line reviews and an Oversight Panel.** An Oversight Panel, consisting of two ALJs and one Administrative Appeals Judge, would examine the case after quality review. If the Oversight Panel affirms the ALJ decision, that decision would become a final agency action. If the

Oversight Panel reverses the ALJ decision, that decision would become a final agency action. Claimants would continue to be able to appeal any final agency action to Federal district court.

Social Security has developed a Service Delivery Plan to eliminate backlogs within a 5-year period. The President's FY 2004 Budget Request provides significant additional funding to begin to eliminate these backlogs. Backlogs at the DDS have already been reduced. Progress is being made at hearing and Appeals Council levels.

Social Security plans to conduct several demonstration projects aimed at helping people with disabilities return to work. These projects would support the President's New Freedom Initiative and provide work incentives and opportunities earlier in the process. They would include: *early intervention* demonstration projects that provide medical and cash benefits and employment supports to applicants who elect to pursue work rather than disability benefits; *temporary allowance* demonstration projects that provide immediate cash and medical benefits for a specified period to applicants who are highly likely to benefit from aggressive medical care; *interim medical benefits* demonstration projects that provide health insurance coverage to certain uninsured applicants whose medical condition is likely to improve with medical treatment; and *ongoing employment supports* to assist beneficiaries who wish to obtain and sustain work will also be tested.

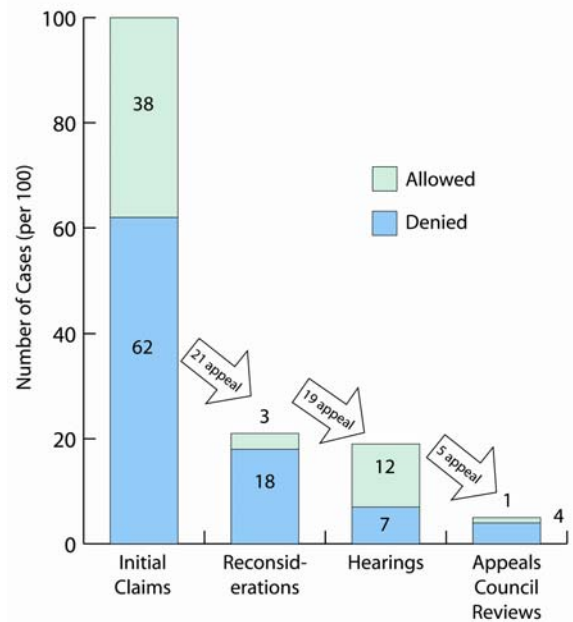
Source: Social Security On-line (www.socialsecurity.org).

FYI

In 2001, the Social Security Administration processed over three million disability claims. This chart provides a gross summary of the outcome of these initial claims. Approximately forty percent of disability applications are approved at the first level of the process. Most claims are allowed (54 of 100), and most allowances are made at the initial level.

Progression of Cases Through the Disability Process

(Note: Data based on total appeals in fiscal year 2002, not a longitudinal tracking of individual cases.)



Source: Social Security On-line (www.socialsecurity.org).

Online Data Analysis Now Available

The Inter-university Consortium for Political and Social Research (ICPSR) now offers instant online data analysis for several studies (www.icpsr.umich.edu/access). Of interest is the National Health Interview Survey: Longitudinal Study of Aging. The data analysis system (DAS) enables users to perform online analysis directly over the Web, without downloading files. This is especially useful for users who do not have statistical software installed on their current workstation. In addition, DAS enables users to create and download subsets of the data files. ICPSR also offers a wealth of data on aging through their National Archive of Computerized Data on Aging (NACDA) (www.icpsr.umich.edu/NACDA).

New MRRC Working Papers On-line

Below is a selection of abstracts from recently released MRRC working papers. Visit our website for full papers and other current papers. www.mrrc.isr.umich.edu.

How Important Are Wages to the Elderly? Evidence from the New Beneficiary Data System and the Social Security Earnings Test

Steven J. Haider and David S. Loughran

Abstract

More than 40 percent of Social Security beneficiaries continue to work after age 65. This research investigates the extent to which these individuals substitute labor across periods in response to anticipated wage changes induced by the Social Security earnings test. While we find that a disproportionate number of individuals choose earnings within a few percentage points of the earnings limit, we find no evidence that these individuals substitute labor supply between ages 69 and 70 when, in our sample, the tax on earnings falls from 50 percent to zero.

Labor Supply Flexibility and Portfolio Choice: An Empirical Analysis

Hugo Benítez-Silva

Abstract

This paper uses panel data from the Health and Retirement Study to estimate the relationship between measures of labor supply flexibility and portfolio-choice decisions by utility-maximizing individuals. Seminal research on portfolio decisions over the lifecycle, and recent research on stochastic dynamic programming models with endoge-

nous labor supply and savings decisions suggest that, other things equal, individuals with more labor supply flexibility are likely to invest more in risky assets, regardless of their age, because of the insurance component that flexible labor supply provides. After controlling for panel sample selection and unobserved heterogeneity I find that labor supply flexibility leads to holding between 12% and 14% more wealth in stocks.

The Impact of Poor Health Behaviors on Workforce Disability

Caroline Richardson, Jennifer T. Hanlon, Hillary J. Mull, Sandeep Vijan, Rodney Hayward, Linda A. Wray, and Kenneth M. Langa,

Abstract

The effects of poor health habits on mortality have been studied extensively. However, few studies have examined the impact of these health behaviors on workforce disability. In the Health and Retirement Study, a nationally representative cohort of 6044 Americans who were between the ages of 51 and 61 and who were working in 1992, we found that both baseline smoking status and a sedentary lifestyle predict workforce disability six years later. If this relationship is causal, cost-benefit analyses of health behavior intervention that neglect workforce disability may substantially underestimate the benefits of such interventions.

ESIP Workshop

The Workshop on the Economics of Social Insurance Policymaking: Theories, Models, and Methods, co-sponsored by the University of Maryland, MiCDA and MRRC, was held at the Maryland Population Research Center on the campus of the University of Maryland, College Park in September. The workshop was designed for government agency and graduate student policymakers and analysts, and others interested in surveying the current trends in economic analysis of social insurance, with specific focus on social insurance policy making. The lectures surveyed the latest theories and models and provided "hands-on" demonstrations of how to solve them numerically, how to estimate and test them statistically, and most importantly, how they can be used in practice. Simulations using these models yield quantitative forecasts, important tools that assist policymakers in designing effective policies and assessing the political consequences of alternative policies (including whom policy interventions hurt and help).

Year 6 Projects

We are pleased to announce the recipients of research awards for the coming year.

- UM04-01 The Social Security Retirement Earnings Test, Retirement, Benefit Claiming, and the Effects of Abolishing the Earnings Test with and without Individual Accounts
Alan Gustman and Tom Steinmeier
- UM04-02 Pareto Improving Personal Accounts
Kent Smetters
- UM04-03 Health and Annuities for the Older Population
Cassio Turra and Olivia Mitchell
- UM04-04 Measuring Social Security's Liabilities
Kent Smetters
- UM04-05 The Impact of the 1972 Social Security Increase on Household Consumption
Melvin Stephens Jr.
- UM04-06 Using a Structural Retirement Model to Simulate the Effect of Changes to the OASDI and Medicare Programs
John Bound, Todd Stinebrickner, Timothy Waidmann
- UM04-07 Do Individual Retirement Account Systems Postpone Retirement?: Evidence from Chile
Estelle James and Alejandra Cox Edwards
- UM04-08 Obesity, Disability and the Movement onto the DI and SSI Rolls
(was Employment, Disability and Obesity)
Richard V. Burkhauser and John H. Cawley
- UM04-09 Continued Development and Public Dissemination of RAND HRS Data
Constantijn Panis
- UM04-10 Development of a Longitudinally Consistent Dataset for the Health and Retirement Study
F. Thomas Juster, Honggao Cao, Michael Perry and Joseph Lupton
- UM04-11 Secure Data Environment and Development of Remote Data Access Facilities
Robert J. Willis and Michael Nolte
- UM04-12 Self-Annuitization in Personal Accounts: Perspectives from the German Experience
Olivia Mitchell and Raimond Maurer
- UM04-13 Changes in Consumption and Activities in Retirement
Michael Hurd and Susann Rohwedder
- UM04-14 Life-Cycle Saving in Dual Earner households
John Laitner, Christopher House, and Dmitriy Stolyarov
- UM04-C1 How Retirement Wealth Shortfalls Change with Age
Olivia Mitchell and John Phillips
- UM04-S1 Household Propensities to Plan for Retirement: A Life Cycle Analysis
Erik Hurst



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