

PROTECTING THE HOUSEHOLD INCOMES OF OLDER WORKERS WITH SIGNIFICANT HEALTH-RELATED WORK LIMITATIONS IN AN ERA OF FISCAL RESPONSIBILITY

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Many policy proposals designed to reduce future federal budget deficits include retirement policy reforms that would delay workers' access to retirement benefits or reduce the value of benefits to those who retire early. It is widely acknowledged, however, that such reforms would have adverse consequences for the economic well-being of older workers with health-related work limitations. To respond to this, some reform proposals address the circumstances of older workers with health limitations and their families through provisions that would preserve their existing benefits and/or make it easier for them to obtain Social Security Disability Insurance benefits.

In contrast to a benefit-preservation (or -expansion) approach, in this paper we explore a set of policy options that favor "work support"—options designed to encourage and help workers continue to work if they can, perhaps with reduced hours or at lower paying jobs. The work-support approach has several distinct merits relative to the benefit-preservation approach. It is likely to maintain, or even improve, the household incomes of those with health-related work limitations at lower cost than the benefit-preservation approach because such workers will continue to rely on their own earnings as a substantial income source. It is consistent with the objective of retirement policy reform, to encourage later retirement. It is also consistent with the direction of current disability policy reform, moving in the direction of assistance for work rather than payment of benefits to those who do not work. However, we leave open the option of SSDI benefits for those who cannot earn more than a minimal amount.

We consider three specific work-support options for eligible workers:

- An expanded earned income tax credit (EITC), comparable to the credit currently available to parents with three children
- An employment support allowance (ESA)—a payment to eligible workers provided that they do not apply for SSDI benefits
- A health insurance subsidy, designed to be comparable to that specified in the Affordable Care Act (ACA) for those who purchase insurance through a health insurance exchange—an option that will presumably become available to all persons without employer coverage as health care reform is implemented

The specification of these options as well as our analysis of them are exploratory in nature; our primary intent is to stimulate interest in work-support options as a practical alternative to benefit preservation options for targeted workers. A secondary intent is to show that options such as these can be both practical, in terms of the number of eligible workers and gross programmatic costs, and effective at reducing economic hardship.

To arrive at a population that might be eligible for such benefits, we first develop a straightforward model to predict the likelihood that a worker reporting a health-related work limitation would experience economic hardship as a result. The model bounds the target population, excluding those who are not expected to experience financial hardship from earnings loss due to a health-related work limitation. It provides a framework that could be used to support rapid eligibility determinations, of

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utmost importance in order to keep individuals in the labor force. The use of a model also prevents gaming because the factors used to determine eligibility cannot be modified in response to the introduction of the program.

The demands of the analysis and the limitations of the data required that we make assumptions that are frequently arbitrary. Nonetheless, we were able to address four main questions about our proposed work-support options:

- How many workers would be eligible under a program that targets those most likely to experience economic hardship as they approach retirement?
- How high would per capita costs be, how would costs vary with the generosity of the options and the eligibility criteria, and how would they compare to the per capita costs of benefit preservation alternatives?
- How large would the gross programmatic costs of the options be and how would costs vary with the generosity of the options and the eligibility criteria?
- To what extent would the options reduce economic hardship among those who experience health-related work limitations as they approach retirement?

Under the specification and assumptions that lead to the most expensive program considered, the program's per capita cost is about \$14,600 annually. Of this amount, approximately \$1,500 is for the EITC, \$8,500 for the ESA, and \$3,000 for the health insurance subsidy. These estimates are upper bounds of the likely costs because they are based on the most expansive definition of eligibility considered and because we use conservative assumptions about program take-up (100 percent) and the cost of the ESA (the highest amount that SSA will pay for services provided to SSDI beneficiaries under the Ticket to Work program). Further, if the provisions of the ACA are implemented as enacted, the health insurance subsidy should not be considered a new cost.

By comparison, mean annual SSDI benefits for beneficiaries age 50 and older were \$14,855 in 2009 (Social Security Administration 2010). Hence, our expectation is that work-support options, on average, would cost less per capita than SSDI benefits, especially if the ACA health insurance subsidy is already in place. The relative cost of these options is even lower once the cost of Medicare for SSDI beneficiaries is factored in. SSDI beneficiaries become eligible for Medicare after 24 months on the SSDI rolls, at an annual cost of approximately \$11,000 in 2009 (Dahl and Meyerson 2010).

The analysis also demonstrates that these options would substantially reduce poverty among the families of qualified workers—by 80 percent under the most costly option. Other less costly options yield appreciable, although smaller, declines in poverty rates. Because of its more favorable work incentives, a work-support program is likely to reduce hardship by more than would a program that preserves existing benefits for the same workers at comparable cost.

A work-support program would be challenging to administer, but no more so than a program designed to preserve the existing benefits of the same workers. It would also be much less challenging to administer than SSDI because of the nature of the benefit and because there have been major advances in health information technology. Rapid determination of eligibility is critical to a program that aims to extend employment and prevent financial hardship. We illustrate an approach that is designed to support rapid determination and discourage gaming.

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