



Tracking the Household Income of SSDI and SSI Applicants

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Executive Summary

The onset of disability often poses a significant threat to the financial well-being of American workers. The two most important federal programs that address this problem are Social Security Disability Income (SSDI) and Supplemental Security Income (SSI). This *Issue in Brief* describes a study that makes use of nationally representative data linked with records from the Social Security Administration (SSA) to trace the pattern and sources of household income from 38 months prior to 39 months following application for SSDI and SSI benefits. Overall, we show that while applicants experience substantial declines in their *labor* earnings in the months leading up to their application, on average changes in *household income* prior to and after application were more modest. However, these outcomes differ greatly across individual applicants. Our findings also underscore the low absolute level of protection provided to all SSI applicants regardless of prior income. Differences between applicants to the two programs and between those who were awarded and those who were denied benefits are explored.

Background

While SSDI and SSI are both administered by the SSA and share common disability criteria for eligibility, they provide protection to two quite different populations. SSDI is a social insurance program for regularly employed workers, which provides benefits based on a worker's past earnings. In contrast, SSI is a means-tested federal welfare program aimed at aged, blind, and disabled adults and disabled children. SSDI's goal is to provide

“earnings replacement insurance” for those who must permanently exit the labor market because of disability. The SSI adult disability program target population is working-age men and women whose disabilities are as severe as those necessary for eligibility for SSDI, but who either did not participate in the labor force sufficiently to receive SSDI benefits or whose SSDI benefits and other sources of household income are below the maximum allowable level to receive disability SSI benefits.

The Application Process

To be eligible for SSDI benefits, an individual must have had a significant recent attachment to the workforce, while to be eligible for SSI an individual’s income and assets must be below a social minimum. Disability determination must be made for both, as outlined below.

As the first step in establishing disability, the SSA field office screens out applicants who are employed. For SSDI, adequate workforce participation is verified. For SSI, a preliminary check for financial eligibility based on income and assets is completed. If determined eligible at this point, the application is sent to a Disability Determination Service (DDS) centers. A DDS officer determines medical disability. Applicants denied benefits at this point can appeal. The vast majority of cases are decided reasonably quickly. In our data, roughly 80% of applicants have a decision within 6 months and over 95% within 12 months of applying for benefits.

The Data

Our data come from the Survey of Income Program and Participation (SIPP), nationally representative sample of Americans interviewed in a series of United States Census Bureau panel surveys. For this project we use data from the 1990-93 panels of the SIPP because these years are currently linked to disability determination records from SSA. For each of four months in each of the years surveyed, the Census Bureau interviewed a new group of Americans 8 times at 4-month intervals. Each interview contains information for the preceding 4 months. So for example, for the 1990 SIPP panel, data is available for up to 32 months on each individual spanning a 35-month period from 1989 to 1992. Similar panels cover the subsequent years, 1991, 1992, and 1993.

Linking the SIPP data to SSA records yielded 9,691 respondents who applied for SSDI and SSI. Only respondents who had reached the stage of being awarded or denied benefits at the DDS level are included in our sample, giving us a sample of 7,637 applicants whose matched administrative records contain valid information on their date of birth, filing date, decision date, and decision outcome to at least the DDS level. We compare three separate time periods: 36-38 months prior to application, 1-3 months after application, and 37-39 months after application to obtain a glimpse of how average household income and its sources change across these periods.

Summary of Major Findings

Characteristics of SSDI and SSI Applicants

- The average SSDI applicant is more likely to be older, male, white, non-Hispanic, married, have at least a high school degree, live in a smaller household, and have more wealth than the average SSI applicant. These findings highlight the fact that these two programs serve very different populations.

Changes in Labor Income before and after Application

- The vast majority of SSI applicants were not employed 36-38 months prior to application (25% employment rate compared to 85% among SSDI applicants).
- Nonetheless, labor earnings decline dramatically beginning six months before application for both SSDI and SSI applicants.
- Over the interval of time between 36 to 38 months before application and 1 to 3 months after application, average monthly labor earnings drop by 84 percent among successful SSDI applicants, 88 percent among unsuccessful SSDI applicants, 88 percent among successful SSI applicants, and 66 percent among unsuccessful SSI applicants. In all cases, monthly labor earnings increase somewhat 37-39 months after application from their level at the time of application but are still only a fraction of earnings before application.

- The dollar amount in labor earnings that must be replaced for SSDI applicants is much larger than for SSI applicants because their employment rate is so much higher.

Changes in Household Income

- Average household income dropped much less dramatically than labor earnings for SSDI and SSI applicants both in the months just before or just after application and over the next three years, and did so even for those denied benefits.
- Household incomes three years after application are lower than household incomes three years before application by approximately 25 percent among successful SSDI applicants, 15 percent among unsuccessful SSDI applicants, and 15 percent among those denied SSI benefits. Surprisingly, for those eventually awarded SSI benefits, there is a steady, if modest, increase in household income over this period, so that 3 years after successful application SSI applicants have a higher household income than before application. This relatively smooth level of household income over the transition is explained by looking at sources of income (below).

Changes in Sources of Income

- We find that a patchwork of temporary disability benefits (e.g., worker's compensation, unemployment insurance, veterans' benefits, and employer pension benefits) supple-

ments the household income of SSDI applicants. In the longer run, most of those temporary sources of income declined and were replaced by SSDI benefits. For those SSDI applicants who were denied benefits, the fall in their household income was somewhat greater immediately following application, but less so thereafter as their own labor earnings rose.

- For SSI awardees, declines in AFDC and other welfare benefits as well as in spouses' labor earnings offset much of the gains from SSI in the months just after application for benefits. The small increase in household income seen for SSI awardees is due to small increases in pension, Social Security, SSI benefits and own earnings.

Differences Among the SSDI and SSI Applicant Population

- We find substantial differences in the percentage declines in household income, with some applicants experiencing very modest declines, and others experiencing very sizeable declines.
- We find that it is higher income households that experience the greater percentage declines in their post-application income.
- For SSDI applicants who are middle income, being married is associated with a larger decline in income compared to that experienced by a single person.

Conclusion

Using data from SIPP linked to SSA disability determination records, we traced the pattern of household income and its sources around the application process for SSDI and SSI benefits. We found that the average SSDI applicant had more than twice the monthly household income of the average SSI applicant, and his or her labor earnings comprised a much larger share of that income. Because of these differences in program populations, differences in eventual income were larger between those who applied for SSDI versus SSI than differences associated with whether the application was awarded or denied. SSDI applicants experience a much greater decline in their household income associated with a decline in their labor earnings, since their labor earnings were on average a much greater component of their household income prior to application.

Unlike most European countries, the United States has no universal short-term disability program, and it imposes a five-month waiting period before SSDI payments can be made. Nevertheless, we found that average household income dropped much less dramatically than labor earnings throughout the transitional period we observed—even for those denied benefits. For SSDI applicants, it is likely that other sources of income offset declines in labor earnings throughout the application process. For SSI applicants, declines in labor earnings translate into modest declines in household income because they are only a small part of it.

While the average declines in household income from their pre-application levels are relatively modest, we find that outcomes differ greatly across individual applicants in both the SSDI and SSI applicant populations. Higher income applicants are found to experience greater declines in income. This is consistent with the lower income replacement rates established in the SSDI program and the low absolute level of protection provided to all SSI applicants regardless of income prior to application.

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