The Importance of Private and Government Safety Nets:  
A Comparison of Approved and Denied SSDI Applicants

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The number of individuals receiving Social Security Disability benefits (SSDI) has been steadily increasing over time, reaching 8.7 million recipients in May 2012. In addition to those receiving SSDI, there are approximately 3.5 million more working-age adults receiving disability income from the means tested Supplemental Security Income Program (SSI) which provides guaranteed incomes to the poor elderly, blind, and disabled. Eligibility in either SSDI or SSI provides not just cash transfers, but crucial health care coverage: SSDI recipients are entitled to Medicare two years after the initial receipt of disability benefits, while SSI recipients are eligible for Medicaid immediately upon the determination of eligibility. Together these programs function to protect the well-being of those unable to work yet too young to receive retiree benefits.

Yet as critical as these programs appear to be to the well-being of the disabled and their dependents, it is not clear how well they serve their mission. First, because SSDI/SSI replace only a fraction of earnings (typically 42% for the SSDI program) and cannot replace additional benefits such as pensions and retiree health insurance that one may earn during a lifetime or work, long-term SSDI/SSI beneficiaries may reach retirement age with little in the way of other resources. Second, in many cases determining eligibility may be a difficult task as the severity of the infirmity and individual’s ability to work are often subjective, particularly when the disability relates to pain or mental conditions.

In this paper we examine the financial and health status of applicants to the SSDI/SSI programs at age 65 as they transition to old age benefits. Our goal here is to understand how prior disability affects outcomes later in life and to what degree benefits from SSDI/SSI protect individuals at older ages by replacing lost income and providing health care coverage. We compare outcomes for those who received SSDI/SSI benefits and those whose applications were denied with outcomes among those who never applied for benefits and who thus serve as our baseline group. Our analyses look specifically at income, wealth, and health status across groups.

Our results suggest that among those living to age 65, those who applied for SSDI/SSI benefits and had their applications denied, fared as poorly (if not more so) in old age as those deemed eligible for disability benefits. The after-age-65 income and asset levels of those accepted and denied from SSDI/SSI are nearly identical, and far below the levels of those who never applied for benefits and who thus serve as our baseline group. Our analyses look specifically at income, wealth, and health status across groups.
eventual mortality. Whether these adverse effects reflect selection into the process of just applying for SSDI or SSI, or whether there are causal adverse effects of these programs is not entirely clear.

Our finding of similar outcomes for accepted and denied applicants is consistent with three possible explanations. First, it is possible that all those who apply for SSDI or SSI are legitimately unhealthy, but the application and adjudication process is so complicated, and disability so difficult to discern in many cases, that it is impossible to distinguish correctly between those truly unable to work and those who can in every case. This first explanation is consistent with our results on mortality suggesting that for this extreme but objective measure, the two groups have nearly identical long-term health outcomes.

A second explanation for the similarity of outcomes for accepted and rejected applicants takes a more positive spin. It may well be that while those accepted into the SSDI/SSI programs are indeed less healthy and less able to work than those rejected, and ceteris paribus would have lower incomes and wealth, but the benefits of the SSDI/SSI income support offsets the lost income and health care costs (through Medicare eligibility), thus leaving no overall difference relative to those who are not judged to be disabled.

A third explanation for our results is that the process of applying for SSDI or SSI has permanent scarring effects on labor force participation and earning ability. Thus, the long and often drawn-out process of application, denial, appeal, and denial may have led to many of the rejected applicants becoming depressed and marginalized in the labor market. The extended spell of non-work may lead to a deterioration of labor market skills or may provide an adverse signal to potential employers, permanently affecting the ability to earn a living. In the end they fare as poorly as those with more severe disability. This scenario would explain why those denied benefits do so poorly relative to the non-disabled even after controlling for demographic characteristics.

While we cannot definitely rule out (or rule in) these competing explanations, our results are at least suggestive of broader welfare effects of SSDI/SSI than previously thought.

The full working paper is available on our website, www.nber.org/programs/ag/rrc/books&papers.html, as paper NB12-14.

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