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Costs, Cuts, and Consequences: Charting a New Course for Working-Age People with Disabilities[1]

By David Stapleton and Gina Livermore

The federal government spends a great deal to assist working-age people with disabilities. In 2008[2] (the most recent data available), an estimated $357 billion (nearly 12 percent of all federal spending) went to support these individuals. Substantial state funds—an estimated $71 billion in 2008 from four federal-state programs—also supported this group. But these funds are spread across multiple agencies and programs with varying goals, disguising total government spending. This brief looks at our nation's spending on programs for working-age people with disabilities, a population that seeks greater independence but is commonly misperceived as unemployable. The size of the expenditures and the current fiscal crisis present policymakers with a unique opportunity to change modes of delivery and realign programs with the goals of the Americans with Disabilities Act (ADA), which calls for "maximizing self-sufficiency" of these individuals. Policymakers should focus on structural changes that would make programs more efficient and benefit our nation's economy, rather than tightening eligibility and reducing benefits—a path bound to create disproportionate harm for this vulnerable group.

Adding It Up: Federal and State Spending

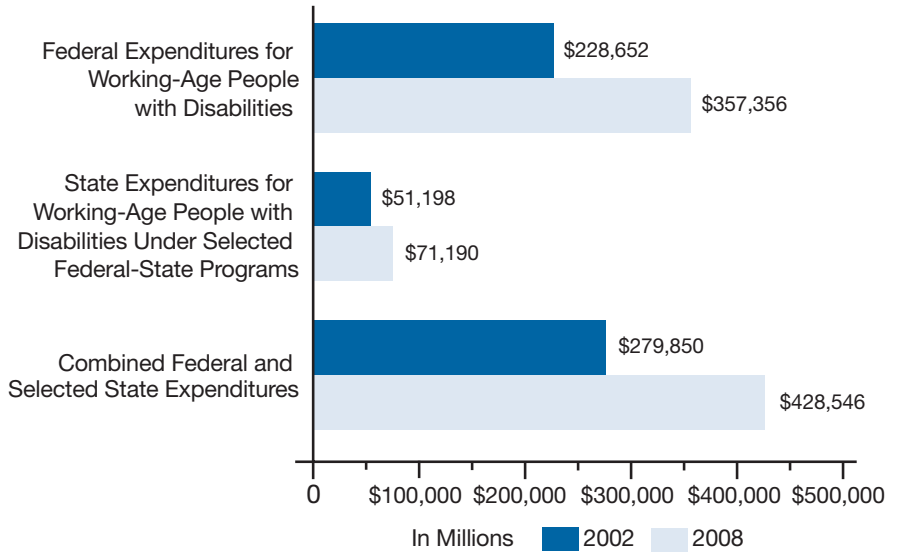
In 2008, the federal government spent more than $357 billion to support working-age people with disabilities (Figure 1), allocated over a patchwork of 63 federal programs. During that same period, states spent $71 billion on joint federal-state programs. More than 90 percent of those funds went to Medicaid. Of the total $429 billion in state and federal spending for this population in 2008, 95 percent covered health care and income maintenance, with only part of the remainder allocated to improving employment and economic independence (Figure 2).

Growth from 2002 to 2008

From 2002 to 2008, state and federal spending for working-age people with disabilities grew faster than the gross

Figure 1.

Estimated Federal, State, and Combined Expenditures for Working-Age People with Disabilities, Fiscal Years 2002 and 2008



Source: Livermore et al. (2011).
Estimates for 2002 were adjusted to 2008 dollars using the Consumer Price Index for All Urban Consumers.

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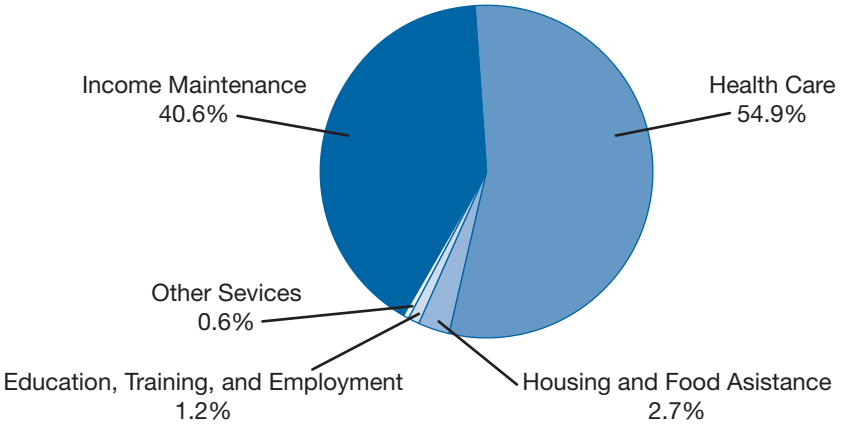
Figure 2.

Percentage of Estimated Federal and State Expenditures for Working-Age People with Disabilities by Major Expenditure Category, Fiscal Year 2008



Source: Livermore et al. (2011).

domestic product, all federal outlays, and all federal revenues (Table 1). High spending growth in programs for working-age people with disabilities between 2002 and 2008 was partly fueled by increases in the numbers served—increases that substantially exceeded the growth rate of the working-age population. Several factors contributed to the increase in people served by these programs. As baby boomers age, the prevalence of disability rises and helps to swell the disability program rolls. Disabled veterans who served in Iraq or Afghanistan, coupled with aggressive government efforts to meet their needs, also increased the number of disability beneficiaries. Finally, the severe recession of 2007, which exacted a toll on all workers, produced particular employment hardships for people with disabilities (Kaye 2010). Many laid-off workers with disabilities applied for and obtained Social Security Disability Insurance (SSDI).

Expenditures also increased per beneficiary served, even after adjusting for inflation. For instance, federal and state expenditures on Medicare, Medicaid, and income support for those receiving SSDI or Supplemental Security Income (SSI) rose from an estimated $29,450 per capita in 2002 to $31,922 per capita in 2008. Rapid growth in per capita health care costs contributed substantially to overall growth of expenditures for this population. Health care expenditures alone grew 34 percent over six years after adjustment for inflation.[3] Rising income support per beneficiary for the SSDI program also contributed to overall growth; the per capita increase reflects the fact that SSDI benefits for new awardees increase with a national wage index that usually grows more rapidly than consumer prices.

In sum, federal, state, and combined government spending to support programs for working-age people with disabilities increased substantially. Federal expenditures rose by $129 billion, more than 30 percent above 2002 levels. State government spending rose as well, increasing by 16.2 percent from 2002 figures. Combined federal and state spending increased by 28.2 percent from 2002 to 2008.

Most of this combined state and federal spending went toward direct assistance for people with disabilities. Health care spending comprised 55 percent of total expenditures in 2008, and income support claimed nearly 41 percent of all dollars spent. These spending levels rose nearly 30 and 28 percent from 2002 figures, respectively. Spending for education and vocational services remained a small share of all expenditures and fell by 3 percent from 2002 levels.

All trends indicate that expenditures for members of this population will continue to rise rapidly for the next several decades under current law. The severe economic recession and anticipated slow recovery, the aging of the baby boom generation, and a growing number of disabled veterans will continue to swell the disability program rolls. In addition, implementation of the Affordable Care Act (ACA) promises to increase federal expenditures in the short term, with a disproportionate but small share likely going to services for working-age people with disabilities. Even if the ACA is not fully implemented, increases in health care costs, a significant driver of expenditure growth from 2002 to 2008, show no sign of abating.

Costs, Cuts, and Consequences

The sheer amount of spending devoted to programs for working-age people with disabilities, coupled with the multitude of programs that serve them, reflect our

Table 1

ESTIMATED FEDERAL EXPENDITURES FOR WORKING-AGE PEOPLE WITH DISABILITIES AS A SHARE OF GROSS DOMESTIC PRODUCT, FEDERAL OUTLAYS, AND FEDERAL REVENUES

	FY 2002	FY 2008	% Change
Total federal disability expenditures	$229 billion	$357 billion	56.3
Percent of gross domestic product	2.1	2.5	15.8
Percent of federal outlays	11.4	12.0	5.4
Percent of federal revenues	12.3	14.2	14.7

Source: Livermore et al. (2011).
Estimates for 2002 were adjusted to 2008 dollars using the Consumer Price Index for All Urban Consumers.

society's strong commitment to their well-being. Such rapid expenditure growth is unlikely to be sustained in the current fiscal climate. Nevertheless, policymakers faced with an impending fiscal crisis are in a dilemma. Cutting programs will harm the health and economic well-being of one of our society's most vulnerable populations. But cutting other crucial social programs and raising taxes are also unpopular policy options.

Tightening eligibility and reducing benefits would slow expenditure growth—at least in the short term—but at great cost to some working-age people with disabilities. Further, such cuts would likely be followed by a return to rapid growth in the future, as they have in the past.[4]

As the nation faces a perfect storm of rising health care costs, prolonged recovery from the great recession, and the continued aging of the baby boomers, what else can policymakers do to address these issues? Take steps to spend available funds more wisely.

A New Vision for Disability Programs

As we have argued elsewhere, U.S. disability policy is at a crossroads.[5] The foundations of existing policy are embodied in programs created during the Eisenhower, Kennedy, Johnson, and Nixon administrations. Under these programs, the government largely serves a caretaker role. This complex, many-program model devotes far more spending on a safety net than on programs to directly advance the goals of "equality of opportunity, full participation, independent living, and economic self-sufficiency" for people with disabilities as articulated in the 1990 Americans with Disabilities Act. The result is an array of highly fragmented programs with counterproductive incentives that create a poverty trap for many people with disabilities: they can struggle to support themselves through work, or they can stop working and live on the meager benefits available.

In short, the labor market has always been problematic for people with significant medical conditions or impairments. Past policies have sought to help such individuals almost entirely outside of the labor market. We need to move toward policies that support the goals of the ADA by helping people with disabilities maximize their self-sufficiency. Other developed countries are also making this transition, and a few are making more progress than the United States.[6]

Advances in technology and medicine make it possible for many individuals with significant impairments to work, increasing the effectiveness of policies designed to help them do so. For instance, although SSDI and SSI continue to provide benefits to any person who is unable to walk, see, or hear, if they are not gainfully employed and meet non-medical eligibility criteria, many such individuals take advantage of technologies that allow them to work instead.[7] We need a shift in the balance of funding away from income and in-kind supports toward economic self-sufficiency support, creating opportunities for greater success while maintaining protections for the many individuals who will not succeed at work, even with extensive help.

Thoughtful policy proposals that embody these ideas exist and deserve greater attention.[8] Several would help workers who experience the onset of a serious medical condition stay in the workforce rather than entering SSDI, reversing the circumstances that often drive such workers onto SSDI. As growth in the numbers of SSDI beneficiaries has been a major driver of public expenditure growth, and other countries have achieved some success with similar policies, these proposals are particularly promising. Initiatives to integrate and coordinate the health care of people with disabilities, along with other efforts to reform care delivery and provider payments, might substantially reduce health care costs and improve the lives of those served.[9] Reorienting support for youth and young adults with disabilities away from programs that confine them to a lifetime of poverty, isolation, and dependence and toward programs that have as their goal promoting a lifetime of economic success, inclusion, and independence (such as supported employment and incentives that reward work and building assets) might also reduce expenditure growth.[10]

Successful structural changes cannot be implemented overnight—partly because we do not know enough about what works and what doesn't work, and partly because it takes time to transition from an old structure to a new one. Hasty policy changes could risk harming this vulnerable population and could fail to reduce expenditure growth. It might easily take a decade to agree on designs for better programs and another decade to implement them. But a commitment to intensively restructuring disability policy should be part of any plan to address our nation's long-term fiscal problems.

Instead of tightening eligibility and reducing benefits, policymakers could seize this opportunity to fundamentally modernize and restructure our nation's disability infrastructure and offer people with disabilities and our economy a more secure future.

Endnotes

[1] This issue brief is largely based on Livermore et al. (2011). The study was supported by the National Institute on Disability and Rehabilitation Research, U.S. Department of Education, through its Rehabilitation Research and Training Center on Disability Statistics and Demographics grant to Hunter College, CUNY (No. H133B080012-09A). The contents of this brief do not necessarily represent the policy of the Department of Education or any other federal agency (Education Department General Administrative Regulations, 75.620 (b)).

[2] All expenditure estimates in this brief are for fiscal years 2002 and 2008. Estimates for 2002 have been adjusted for inflation to 2008 dollars, using the annual Consumer Price Index for All Urban Consumers.

[3] Unless otherwise noted, all expenditure growth rates from 2002 to 2008 are adjusted for inflation.

[4] Growth in the SSDI program during the 1970s led to a series of policy changes intended to tighten eligibility criteria. Although these changes reduced the number of beneficiaries, they were subsequently replaced due to public backlash

and growth in the disability rolls resumed. See Stapleton and Wittenburg (2011).

[5] See Stapleton et al. (2007).

[6] See Organization for Economic Co-operation and Development (2010).

[7] Maestas et al. (2010) provide convincing evidence that 18 percent of SSDI beneficiaries could engage in substantial employment (currently $1,000 per month) by their second year on SSDI, but only 5 percent do. See also French and Song (2011).

[8] See Stapleton and Wittenburg (2011) and Bergman and MacDonald (2011) for discussions of multiple proposals. Specific proposals appear in MacDonald and O'Neill (2006), Autor and Duggan (2010), and Burkhauser and Daly (2011), See also Social Security Advisory Board (2006).

[9] See Medicare Payment Advisory Commission (2010) and Esposito et al. (2008).

[10] See Bond et al. (2008) on supported employment and National Council on Disability (2008) on earnings and tax incentives.

About the Authors

Senior fellow David Stapleton directs Mathematica's Center for Studying Disability Policy. He is also the area leader for the firm's studies of Social Security Administration (SSA) programs. Since 1991, his research has focused on the impacts of public policy on the employment and income of people with disabilities. Stapleton, who joined Mathematica in 2007, is a principal investigator for the HHS Center of Excellence for Comparative Effectiveness Research on Disability Services, Coordinated Care and Integration; SSA's Benefit Offset National Demonstration; SSA's Ticket to Work Evaluation; and the Rehabilitation Research and Training Center Disability Statistics and Demographics.

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