

Doubling Down

Reforming Retirement and Disability Policy at the Same Time

BY DAVID STAPLETON

For older people in the United States, two types of federal policy are especially critical: (a) policy governing when and how retirement occurs, and (b) programs governing how disabilities are dealt with. These two types of federal policy are by all accounts in crisis.

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The retirement policy crisis is in part a simple fiscal one, but this does not of course imply that reform is imminent. Indeed, even as fiscal realities are making it harder and harder to escape the need for retirement policy reform, resistance to even the most common-sense reforms remains strong.

As for disability programs, here again there is much fiscal stress. Worse yet, there is a growing recognition that federal disability programs fail to meet the needs of many workers who experience the onset of a disability. But despite these problems, opposition to sensible disability policy reforms also runs strong.

The most logical retirement policy reforms would encourage later retirement in recognition of long-term societal improvements in life expectancy and health. Why are these reforms nonetheless often opposed? It is partly because they could harm many older workers who have not experienced such gains in life expectancy or health. Moreover, for workers who remain in the labor force, current disability programs are inadequate to protect them.

The most common-sense reforms of disability policy address the needs and interests of both employers and workers. On the employer side, we need early intervention that makes it attractive to retain employees after the onset of a significant medical condition. On the worker side, we need to provide support that makes it possible to stay in the labor force rather than claim disability benefits.

The opposition to such reform, however sensible it might seem, is substantial. Advocates fear these reforms would harm those they are designed to help, employers worry they will increase labor costs, and deficit hawks fear they will add to the government's fiscal woes. I suggest that we break the impasse on both fronts through a package of reforms that would increase the retirement age and establish an early intervention program for older workers.

Making the Case

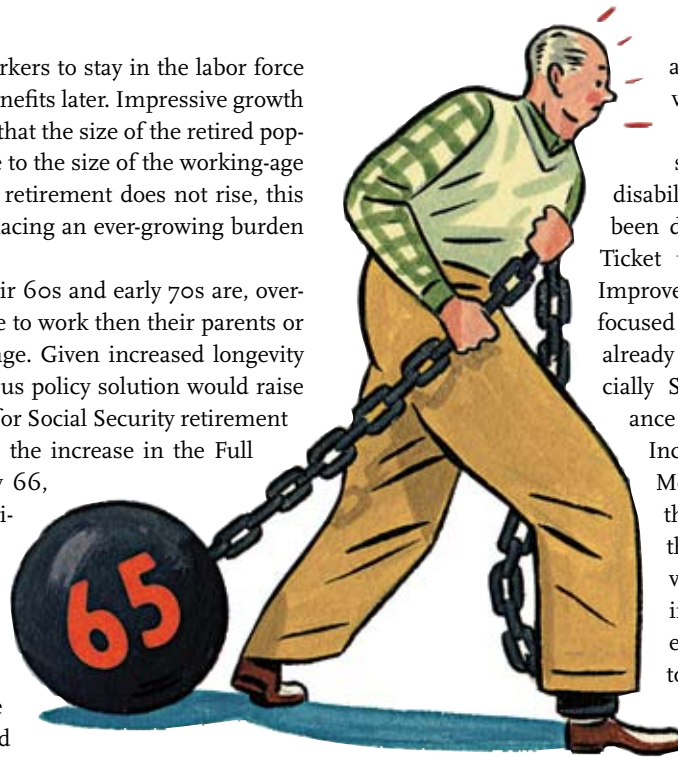
The public has paid a great deal of attention to retirement policy reform, but little progress has been made. Many smart people have argued that we must change retirement

policy in ways that encourage workers to stay in the labor force longer and to claim retirement benefits later. Impressive growth in average life expectancy means that the size of the retired population has also increased relative to the size of the working-age population. If the average age of retirement does not rise, this group will continue to expand, placing an ever-growing burden on those who are working.

In addition, individuals in their 60s and early 70s are, overall, much healthier and more able to work than their parents or grandparents were at the same age. Given increased longevity and better health, the most obvious policy solution would raise the Earliest Eligibility Age (EEA) for Social Security retirement benefits, currently 62, accelerate the increase in the Full Retirement Age (FRA), currently 66, and increase the Medicare Eligibility Age (MEA), currently 65. Such changes would increase total output, increase tax revenue, and reduce total Social Security and Medicare outlays.

Many stakeholders oppose increasing the EEA, FRA, and MEA, as well as other reforms that would support delayed retirement, because not all workers are benefiting from gains in health and longevity. One recent study showed that, among those who reached age 66 in 2007, a very large share of the recent gains in longevity accrued to workers who were in the top half of the earnings distribution during their prime working years. The bottom half experienced far less substantial gains in longevity. Research also suggests that, of the approximately 2.6 million workers who were 55 years old in 2008, over 600,000 will lose earnings because of a work-limiting health condition before age 62. At the same time, Social Security Disability Insurance (SSDI) will help fewer than a quarter of workers in this group. Without SSDI, many are forced to rely on lower Social Security retirement benefits to sustain their household incomes when they become eligible at age 62. These workers would be the most immediately disadvantaged by increases in the EEA, FRA, and/or MEA.

It is well established that the economic well-being of working-age people with disabilities has deteriorated. It is also well established that working-age people with disabilities are increasingly reliant on public support. Despite dramatic advances in technology and medicine, the employment rate of this group is much lower than it was in the mid-1980s, and a larger share of this group now relies on public disability benefits and public health insurance. These advances in technology and medicine have not had the expected effect because of policies that discourage employers from retaining workers after the onset of a significant long-term medical condition and that encourage workers to exit the labor force and apply for public benefits. The obvious policy response: incentives and technical assistance to help employers and workers take better advantage of advances in technology



and medicine, thereby increasing workers' self-sufficiency.

As a nation, we have made significant efforts to improve disability policy, but results so far have been disappointing. Most notably, the Ticket to Work and Work Incentives Improvement Act, enacted in 1999, focused on people with disabilities who already receive public benefits—especially Social Security Disability Insurance (SSDI), Supplemental Security Income (SSI), Medicare, and/or Medicaid. The intent is to help them return to work by increasing the availability and quality of services they need to work and reducing the likelihood that they lose essential health coverage. Ticket to Work encourages qualified providers, including employers, to help SSDI beneficiaries earn enough to voluntarily give up their benefits. The legis-

lation introducing Ticket to Work also called for a demonstration to test a benefit offset for SSDI—to reduce benefits by \$1 for every \$2 of earnings above the monthly earnings limit (almost \$1,000 in 2009 for most beneficiaries), rather than terminating benefits entirely. Other less prominent policy changes, such as efforts to increase accessibility of employment services at One Stop Service Centers, have also aimed to improve the employment and self-sufficiency of people with disabilities. Although results have been underwhelming to date, the government continues to pursue these initiatives, including a 2008 increase in the generosity of the Ticket to Work program.

A growing number of policy analysts and disability advocates have argued that the success of disability reforms will always be limited because they focus on people who have already separated from their employer and grown reliant on public benefits. Some even argue that such efforts make matters worse, because they “induce demand” by encouraging workers to enter SSDI so they can take advantage of new employment supports. In fact, concern about induced demand is a major reason that SSDI does not already have a benefit offset. Instead, many stakeholders are now considering early intervention policies that encourage employers to retain workers after the onset of a significant medical condition, and help workers stay in the labor force rather than enter SSDI. These policies are largely untested, however, and implementing an untested approach is risky. Ill-designed early intervention policies could impose burdens on employers that undermine, rather than stimulate, employment of workers with disabilities. They could also harm workers and accelerate government expenditures.

All Together Now: Reforming Retirement and Disability Policy

Addressing these difficult policy problems simultaneously offers several advantages. Specifically, a package of reforms that encourages later retirement, offers early intervention for older workers with medical problems, and expedites SSDI entry for those older workers with the most severe medical problems could help address the government's rapidly mounting fiscal problems while protecting those who would be most harmed by policy reforms that would only encourage later retirement. If the package succeeds in keeping some older workers with medical conditions in the labor force and deters some from entering SSDI, the net cost of such early intervention might be very modest; it is even possible that SSDI savings and higher tax revenue from older workers would be sufficient to pay for early intervention.

The design of early intervention policies will be critical to the success of this proposal. Many options are available. At one extreme are relatively simple, broadly targeted policies that take the form of wage subsidies. These policies include, for example, an expansion of the Earned Income Tax Credit for older workers, comparable to the expansion for low-income parents in 1993; time-limited return-to-work subsidies, or re-employment bonuses, which have been shown to be an efficient means of helping laid-off workers return to work; or a wage insurance program. Another broad approach would be to simply reduce employers' payroll taxes for older workers.

Relative to other options, these approaches have two important merits. First, they are simple, relying mostly on earnings information that employers must already report. Second, they help workers who involuntarily experience wage losses for reasons other than health, such as a recession, industrial restructuring, or the need to care for a loved one. But on the flip side, they also benefit those who voluntarily move to lower-paying jobs, and they might be insufficient to help people with significant medical conditions.

Envisioning a New Program

These drawbacks are important enough to suggest a targeted approach focusing more narrowly on workers with significant medical conditions. Although aimed at a different group, the U.S. Department of Labor's Alternative Trade Adjustment Assistance (ATAA) program provides a possible model. The broader Trade Adjustment Assistance program is available to workers displaced from their jobs by international competition, and ATAA is a component that is available to those over 50 only.



Benefits include a time-limited wage subsidy, a health insurance credit, and employment counseling.

I envision an ATAA-style program, Employment Support for the Transition to Retirement (ESTR), to address the needs of older workers who experience the onset of significant medical conditions. The program would provide assistance to workers at risk for SSDI, including an initial screen to expedite SSDI entry for those with the most serious problems; more extensive counseling, including health care counseling; financing for assistive devices, accommodations, and personal assistance needed to work; and temporary income support for some. Those who meet ESTR eligibility requirements would also qualify for Medicaid and Supplemental Security Income (SSI) if they met those programs' means tests. Incentives could be offered to employers who hire or retain those eligible for ESTR.

The administrative burden of ESTR might appear daunting to those familiar with the problems of the SSDI/SSI disability determination process. But the accelerated development of a national electronic health information system will make eligibility determinations easier in the future; in fact, the SSDI/SSI determination processes are already experiencing gains from rapid access to electronic medical records for a small share of claimants. Local delivery of federally funded employment, health, and other services is also administratively challenging; the new program would need to incorporate federally funded service systems already in place, including vocational rehabilitation and workforce development services. Ensuring that workers receive the health care they need to continue working would be a key goal, although health care reform might address this issue.

There are many intermediate versions of early intervention policies, and much analysis of the costs and benefits of various options remains to be done. Such analysis will inform a political process that will ultimately determine which version, if any, is adopted.

The specifics of the retirement and disability policy reforms are tangential to the main point. It appears feasible to develop a fiscally attractive package of policy reforms that would both encourage later retirement and provide early intervention support to older workers with significant medical challenges. Perhaps such a package could break the policy-reform impasse in both of these difficult areas. The result would be a smarter retirement policy that both protects the vulnerable and addresses long-term budget problems.

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