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## Do Older SSDI Applicants Denied Benefits on the Basis of their Work Capacity Return to Work After Denial?

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*In this issue brief, we document the post-denial employment and benefit experiences of older applicants who are initially denied Social Security Disability Insurance (SSDI) for “work capacity” reasons. Specifically, a disability examiner determined that these applicants had a severe impairment, but denied benefits because the applicants’ residual functional capacity allowed them to perform past work or other work. For simplicity, we use “work capacity” denials for these cases, though that is not SSA’s official nomenclature. We follow the experience of older SSDI applicants from the time they receive an initial denial for SSDI benefits through full retirement age (FRA; age 65 or 66, depending on their birth year). The information in this brief highlights findings from a longer manuscript (Schimmel Hyde et al. 2018). Our findings shed light on the types of policies that might be most beneficial to older workers who experience disability onset to remain working and therefore delay claiming Social Security benefits.*

### Introduction

As workers approach retirement, they are more likely to experience a health condition that potentially limits their ability to remain employed. If these new conditions significantly impair the individuals’ ability to work, they may apply for SSDI, but the award of benefits is far from certain. Among disabled worker applicants over age 50, our estimates suggest that about half are

initially denied benefits. Among those denied benefits, some may return to work, but work for younger populations has shown that many do not, and that those who work often earn less than they did prior to application (Strand and Trenkamp 2016; Social Security Administration’s Office of the Inspector General 2018). Because the ability of older workers to return to their past job or find work in a new area may be limited, the experience of older workers may differ from that of younger ones. The process used to evaluate disability claims also incorporates age in a way that may affect the likelihood of receiving benefits, motivating our decision to consider older applicants.

The sequential evaluation process for disability determinations

To make a determination about whether an applicant should receive SSDI, disability examiners follow a five-step, sequential evaluation (SE) process (SSA POMS 22001.001) outlined in Figure 1. In the first two steps, examiners determine whether the applicant meets the financial eligibility requirements for SSDI benefits (meaning a sufficient work history) and has a severe impairment. If these conditions are satisfied, the application proceeds to the third step. At step 3, applicants may be awarded benefits if his or her impairments are included on SSA’s Listing of Impairments, which includes hundreds of severe conditions that result in a benefit award. The applicant’s impairments may also be found to “equal the listings” if the constellation of conditions alleged by the applicant and documented by medical evidence is found to be equivalently disabling as those in the listings.

Our interest is in applicants who receive an initial determination at steps 4 or 5 in the process. These applicants meet the eligibility criteria for benefits and have been determined to have a severe impairment, but one that does not meet or equal the listings at step 3. Applicants evaluated at step 4, are assigned a residual functional capacity (RFC) based on the disability examiner’s assessment. The applicant’s RFC is then evaluated against capacity requirements for his or her past relevant work (SSA POMS 24510.001; SSA POMS 25005.001).<sup>1</sup> If examiners deem that applicants are able to perform past relevant work, they deny applications at step 4. Importantly, the assessment of the ability to perform past work does not take into account either the availability of past work in the current economy or other demand-side considerations that might affect the applicant’s ability to find work (SSA POMS 25005.001).

Nearly half of SSDI applications that meet the criteria of steps 1 and 2 receive a determination at step 5 (Wixon and Strand 2013; Mann et al. 2014). In this step, the examiner assesses applicants for their ability to perform other work based on their RFC as compared to the exertional requirements of work, given the applicant’s age, education, and work experience. Determinations at step 5 use medical-vocational guidelines established by SSA, commonly referred to as the “grids” (SSA POMS 25025.005, Warshawsky and Marchand 2015). The grids take into account vocation factors—age, education, and work experience—that SSA is required to consider by law. Yet, a recent literature review found no rigorous evidence to support how those factors are incorporated (Mann et al. 2014). As the nature of work changes, SSA finds it

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<sup>1</sup> Past relevant work (PRW) includes not only the work performed in the job immediately preceding the disability application, but it may also include any work performed within the last 15 years. Examiners compare RFC to PRW on a function-by-function basis; in other words, they consider the requirements of the past work by using information provided by applicants and/or contained in the Dictionary of Occupational Titles to compare those requirements to applicants’ RFC (SSA POMS 25005.020; POMS 25005.025).

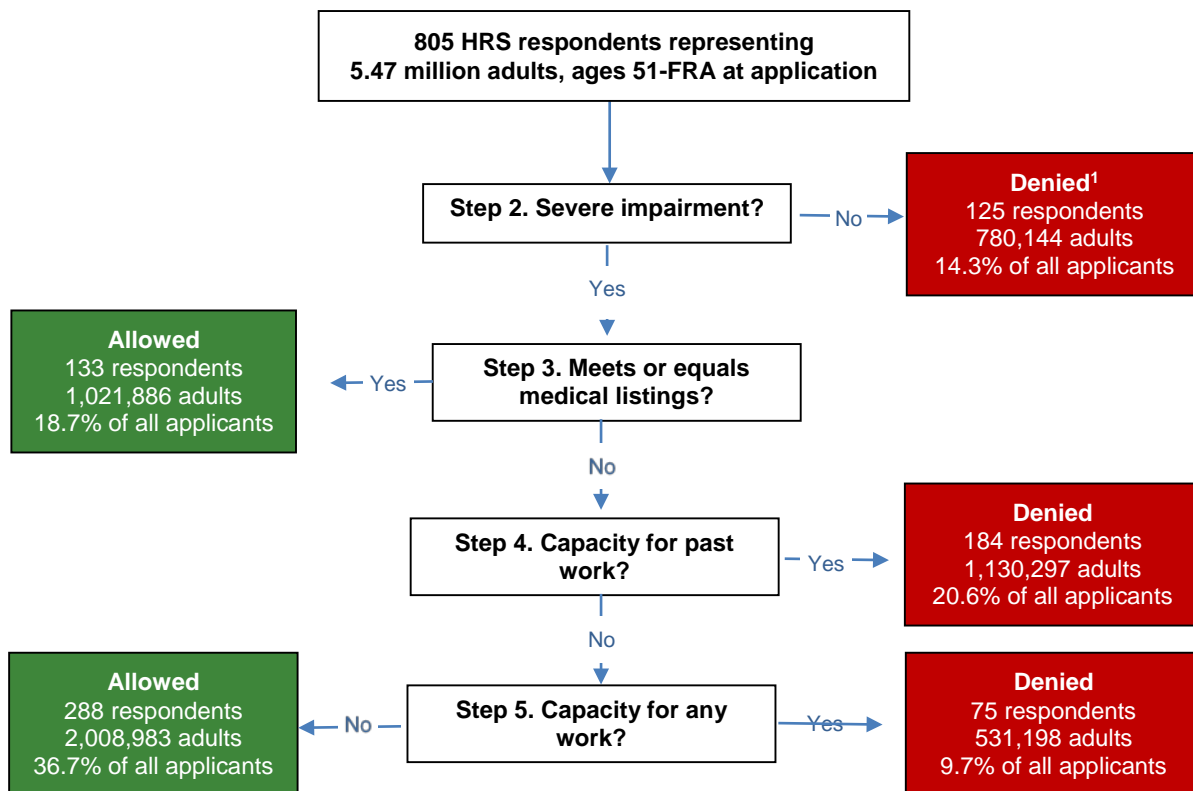
very challenging to update the job requirement information that is instrumental to using the grids, and as a result, vocational factors have drawn policymaker attention and are the subject of reform proposals (Warshawsky and Marchand 2015).

How many older SSDI applicants are initially denied benefits based on their work capacity?

We considered the experience of 805 HRS respondents, representing nearly 5.5 million older adults, who applied for SSDI based on their own work history (disabled worker claims) at least once between age 51 and FRA (Figure 1). SSA's data records applications only for those who have been determined to be financially eligible for the program, meaning that they have sufficient work histories to claim benefits. Nine in ten applicants in this group were seeking SSDI for the first time. At the time of application, their average age was just under 59 years. A large majority (88.2 percent) were under age 62, so were not yet eligible to claim retirement benefits under Old Age Survivors Insurance (OASI). The remaining applicants could have claimed the OASI benefit at the same time they applied for SSDI, but for an amount that is reduced relative to the SSDI benefit and the OASI benefit amount the claimant would receive if he or she waited to claim benefits until FRA.

More than half of these older SSDI applicants were initially allowed benefits (Figure 1), a higher share than the allowance rate among all SSDI applicants (Wixon and Strand 2013). Among allowed applicants, about one-third received benefits at step 3 because their impairment met or equaled the Listing of Impairments, while two-thirds received benefits at step 5 for work capacity reasons. Among denied applicants, one-third were denied at step 2 because their impairment was not severe, while two-thirds were denied for work capacity reasons. Denials for the ability to perform past work were more than twice as common as denials for the ability to perform other work.

Figure 1. Outcomes of the initial SSDI determination for older applicants, by step of the SE process



Source: Authors' calculations using the HRS data linked to SSA's 831 file, using the determination made at either the initial or reconsideration level (whichever was the highest level of review for the application). The structure for this figure and the reason for allowance or denial were drawn from Wixon and Strand (2013).

Note: We included applications that were filed as early as 1992 and as late as 2012. Weighted estimates account for complex survey design of the HRS as well as the differential likelihood of consenting to having records matched to SSA administrative data, as described in HRS (2017).

<sup>1</sup>The majority of denials in this group were because the impairment was not severe or not expected to last 12 months. We also included in this group fewer than 10 cases that could reasonably be considered to be closer to technical denials (those who did not meet eligibility requirements before step 3): those who failed to follow the prescribed treatment or failed to submit to a consultative examination or who provided insufficient evidence to complete the claim.

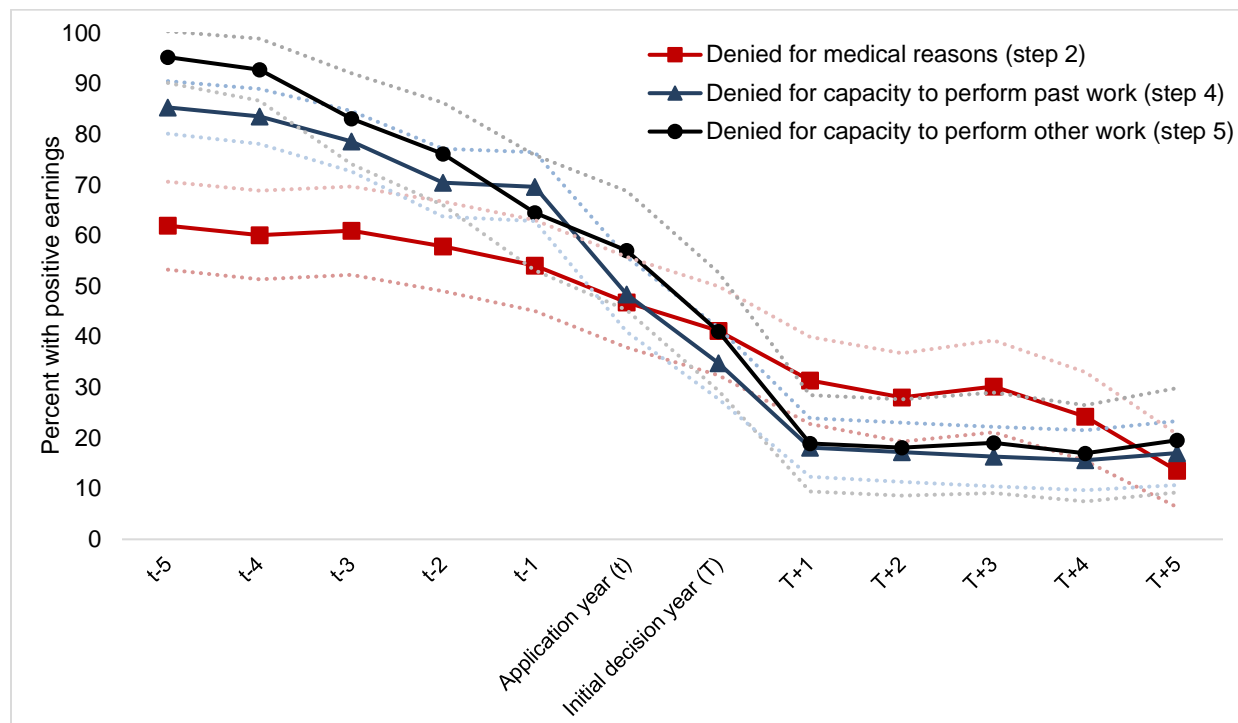
How many initially denied SSDI applicants work in the years following denial, and how much do they earn?

In this section, we document the share of denied applicants who work in the five years before application and the five years following the initial determination. Applying for SSDI benefits usually means labor force exit, to prove an inability to engage in substantial gainful activity as required for eligibility. Some applicants may stop working much earlier, and only apply after other benefits run out or they become frustrated by efforts to return to substantial work. After SSDI application, re-entering the labor force can be challenging, even for younger workers. It may be especially difficult for older workers, who may leave a career job following

disability onset, may have outdated skills, or may face age discrimination. Thus, even those whose residual functional capacity results in a determination of the ability to engage in past work or other work may have difficulty doing so.

In fact, only a minority of denied applicants return to work. A significant share were not working well before they applied for SSDI. Five years before applying, 15 percent were not working, measured by having positive earnings in the calendar year (Figure 2). In that year, an estimated 85 percent of step 4 denials and 95 percent of step 5 denials were working compared with 62 percent of those denied for medical reasons. While the confidence intervals around the estimates show that they are imprecise, applicants initially denied at step 2 are less likely to be working prior to application than applicants denied for work capacity reasons.

Figure 2. The share of initially denied applicants with positive earnings in the calendar years surrounding SSDI application, by reason for denial



Source: Authors' calculations using the HRS linked to SSA's 831 file and the Summary Earnings File.

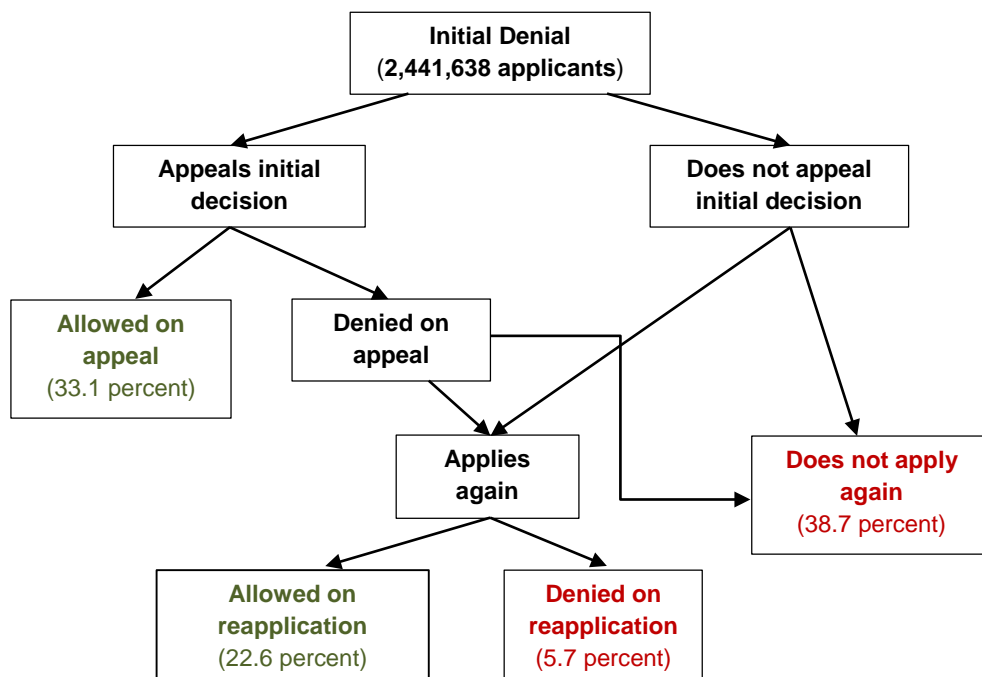
Notes: Dashed lines indicate confidence intervals around each series. Percent with non-zero earnings limited to the number of individuals with data available in the calendar year from the Summary Earnings File; this number falls in the years following the initial decision due to right censoring.

Around the time of application, the likelihood of working declines more abruptly among those denied for work capacity reasons than it does among those denied at step 2 (Figure 3). Those denied for medical reasons have a higher likelihood of earning in the first few post-denial years than those denied for work capacity reasons, though again our estimates are imprecise due to the small number of denied applicants in the HRS. After the initial denial, the share with positive earnings continues to decline across all groups, though the year-over-year changes are

not large. By the fifth calendar year after application—when the average denied applicant in our study is between ages 61 and 63—between 10 and 20 percent have positive earnings.

The average earnings among denied applicants who work were lower after denial than average earnings in the pre-application period.<sup>2</sup> When comparing average earnings among earners in the five years before application to the five years after the initial determination, we found that earnings in the later years were only half as large among those denied for medical reasons and those denied for the ability to perform past work (step 4). Among those denied at step 5, average earnings among earners were 15 percent lower in the five years after denial relative to the five years before application. This pattern is consistent with our findings that applicants denied at step 5 are younger on average, tend to have higher education levels, and work in more highly skilled jobs than other denied applicants; these attributes may also make them more likely to find higher paying jobs if they return to work after denial. Of course, there may be selection in who returns to work; it is possible that those who continue to work after denial had above-average earnings prior to application and experience a greater than average decline in earnings. The opposite could also be true.

Figure 3. Appeals and Reapplications to SSDI Following Initial Denial<sup>1</sup>



Source: Authors' calculations using the HRS linked to SSA's 831 file and CYBF.

<sup>1</sup>To avoid disclosing potentially identifiable information, we have rounded numbers in a way to maintain the qualitative findings without revealing the exact number of observations in each category, per the disclosure requirements for using the restricted HRS-SSA data.

<sup>2</sup> Results in this paragraph not shown, but are available in Schimmel Hyde et al. (2018).

How many denied SSDI applicants ultimately receive Social Security benefits before FRA?

One reason that denied applicants may not work is because they are continuing to pursue their benefit claim and therefore do not engage in substantial gainful activity. Applicants who are initially denied benefits may appeal that decision or they may reapply after more information becomes available, they age (important for the medical-vocational guidelines at step 5), or their health declines. We found that 55.7 percent of initially denied applicants in our sample ultimately received an SSDI award before FRA (the green boxes in Figure 3), with the majority of those receiving an award after appealing the initial decision. Almost one-third of denied applicants (28.3 percent) apply again, either after they appealed and were denied, or simply began a new application. Just over one-third (38.7 percent) never apply again, though some in this group may have appealed the initial decision and been denied.

Overall, the patterns of appeals and reapplications among older denied applicants result in important differences in outcomes for those denied for medical reasons compared to those denied for work capacity reasons (not shown). In particular, 67 percent of work capacity denials were allowed after appeal or reapplication, more than twice as many as the 31 percent of those denied for medical reasons who were ultimately allowed. The higher ultimate SSDI allowance rates among initial work capacity denials compared with initial medical denials is mechanically related to the fact that a much higher share of the former appeal the initial decision. We also found that a slightly higher share of step 4 denials is ultimately allowed relative to step 5 denials (69.4 percent compared with 63.0 percent, respectively).

Unlike applicants at younger ages, older denied applicants also have the option to claim OASI as early as age 62. Even though individuals receiving OASI prior to FRA are able to earn above SGA,<sup>3</sup> we hypothesize that denied applicants who ultimately claim OASI before FRA are unlikely to reenter the workforce. Among the cases for whom we did not observe an SSDI award, more than 70 percent begin to receive OASDI (either OASI or SSDI) between the ages of 62 and FRA, with little difference across the groups of denied applicants.<sup>4</sup> But, among those who begin to receive benefits between 62 and FRA, three-quarters receive their first payment at age 62, suggesting that most of the benefit receipt among this group is OASI at the first possible age.

### Implications for Policy

Our main findings are that few older SSDI applicants who are initially denied benefits go back to work and most become Social Security beneficiaries before attaining the FRA. Many receive an allowance after a potentially lengthy appeal or reapplication. Presumably many experience significant financial hardship while they attempt to obtain disability benefits and are

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<sup>3</sup> If an individual collects OASI benefits before FRA, his or her benefits are reduced by \$1 for every \$2 earned over a pre-specified limit (Song and Manchester 2007). In 2017, that limit is \$16,920 annually.

<sup>4</sup> The data we used did not allow us to identify whether those who receive an OASDI payment after age 62 ultimately were awarded SSDI or claimed OASI at an actuarially reduced amount. In addition to not separating OASI from SSDI, these statistics should be interpreted with caution, as 15 percent of our sample did not have data through age 62 (members of the early boomer cohort) and an additional 5 percent had data beyond age 62 but not all the way through FRA. Exclusion of those cases from consideration suggests that virtually all whom we observe as able to claim OASDI did so before FRA. More details about the data are available in Schimmel Hyde et al. (2018).

not working. Earlier research has found that the households of older workers who experience significant earnings loss following the onset of a medical condition typically have lower incomes, amass less wealth and face a higher likelihood of poverty than otherwise similar workers (Schimmel and Stapleton 2012). Those gaps emerge before FRA but persist for many years, even among those who started to receive SSDI or OASI prior to that age (Schimmel Hyde et al. 2018). Two recent studies have demonstrated that mortality of older workers is sensitive to the availability and size of benefits (Fitzpatrick and Moore 2017; Gelber et al. 2017). Hence, a plausible case can be made for increasing support to older workers who experience the onset of a significant, long-term medical condition.

One approach for increasing support for such workers is to make it easier for workers to obtain SSDI benefits as they age, but that is an idea that is not likely to be well received by policymakers because of the cost to the SSDI Trust Fund, including costs from possible induced entry—awards to workers who, under current policy, would not apply for SSDI. Such a policy would presumably reduce denials to applicants no longer unable to engage in SGA because of a medically determinable condition, but would also increase allowances to those who are still able to engage in SGA.

Another approach is to improve the quality of initial determinations—take steps to ensure that those denied at this stage are truly able to engage in SGA. It is not clear, however, that there are attractive options for doing so. The current disability determination process is the product of decades of efforts by SSA, in consultation with many experts, to develop a process that is accurate as well as efficient. Improving the process is hampered by the lack of rigorous evidence to support improvements (Mann et al. 2015) and the high barriers to producing such evidence.

A different approach to improving support for older workers with significant medical problems is to develop and implement policies that make it more feasible and attractive for workers faced with financial hardship to continue to work, are less costly on a per worker basis, and have lower costs associated with administrative decision errors. An example of such a policy is a disability wage tax credit (DWTC), targeted at older workers with sufficiently significant, long-lasting medical conditions—conditions on a par with conditions that satisfy the severity criteria applied at step 2 of the disability determination process. All very low-income workers are now eligible for an earned income tax credit (EITC), but the value of the EITC is substantial only for parents of minor children and therefore applicable to few older workers. On a per-worker basis, such a policy could potentially cost far less than awarding SSDI benefits and, after 24 more months, Medicare (Stapleton and Schimmel Hyde 2017). These savings could potentially be substantial, but whether they would be sufficient to pay for the DWTC would depend on implementation details.

Policymakers might consider offering a DWTC to all older workers at-risk for SSDI entry as excessively risky. Many workers who would not apply for SSDI might apply for such a DWTC (induced entry), and the administrative process required to discriminate between those eligible and those not eligible turn out to be just as problematic as the SSDI determination process for older workers. A more limited version of this proposal would be to offer the DWTC to all SSDI applicants who are not denied at step 2. Some, perhaps many, applicants who might otherwise go on to enter SSDI might opt, instead, to use the DWTC—especially those at high risk of financial hardship and most capable of at least partially supporting themselves through work. These are



the sorts of cases that may be the most difficult to adjudicate at steps 4 and 5, and for which the costs of denial errors are likely to be highest. The five-month SSDI waiting period would presumably dampen, but not eliminate, the potential for induced entry.

### Data and Methods

To conduct our analysis, we used the Health and Retirement Study (HRS) data linked to SSA records on benefit application and receipt. The HRS is a nationally representative, longitudinal survey of adults over the age of 50 in the United States, administered by the Institute for Social Research at the University of Michigan. Using the data collected from HRS respondents and linking to SSA's 831 files, we identified applicants who initially applied for SSDI between 1992 and 2012 (after their first HRS interview), when they were between age 51 and SSA's full retirement age (age 65 or 66, depending on their year of birth).

We also linked to SSA's Cross-Year Benefits File (CYBF) to identify the receipt of SSDI and Old Age and Survivors' Insurance (OASI; commonly referred to as Social Security retirement) benefits. The combination of data in the 831 and CYBF files allowed us to identify applicants who appealed their initially denied claim, subsequent applications, and the timing of SSDI and OASI claiming. Additionally, we linked to earnings records collected by the Internal Revenue Service (IRS) to study changes in earnings before and after being denied benefits.

All results presented in this brief are nationally representative, weighted to account for the probability of matching to SSA administrative data as well as the complex survey design. More details about our methods are available in Schimmel Hyde et al. (2017).

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