

NOT WORKING

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FOR years, Doug, who lives in Binghamton, New York, suffered from bipolar disorder. In 2003 he enrolled in the federal disability insurance (DI) programme. With his illness now properly treated, he has been looking for work since 2013, without much luck. Because he worked full-time in a shop a decade ago, he would lose his disability benefits if he returned to full-time work now. He worries that he couldn't handle it, and would end up without a job or benefits. So he is hunting for part-time work that won't overtax him, and will let him keep his benefits.

His dilemma is about to get even trickier. DI, on which he depends, is fast running out of money. In the past quarter-century the share of working-age Americans on disability has doubled, to 5% (see chart). Some 11m Americans – 9m workers plus their dependants – now receive benefits, nearly as many as work in manufacturing. The result is that DI now pays out far more in benefits than it receives in payroll tax. Its trust fund will run dry by the end of 2016.

When danger-point has been reached in previous years, money has been shifted to DI from payroll tax or the Social Security trust fund (which is meant to cover public pensions); but a rule passed this month by the House of Representatives says this cannot be done any more without reform. Republicans say this will force Congress to grapple with the problem. Maybe.

The programme owes its dire state, in part, to the same demographic forces undermining Social Security and Medicare. Baby-boomers who haven't yet retired are now at the age when they are most likely to become disabled. Their numbers have been swollen by the entry of more women to the workforce. And a gradually rising retirement age means beneficiaries collect disability payments longer before they switch to a pension.

But demography explains only a bit more than half the rise in the rolls since 1980, according to the Congressional Budget Office and Federal Reserve Bank of San Francisco. The rest is because workers of any age or sex are now much more likely to qualify. Americans are no sicker than before. As David Autor of MIT and Mark Duggan of Stanford note, the number of 40- to 59-year-olds reporting any kind of disability has remained stable at about 10%. The health of older workers has improved.

However, in 1984 the eligibility criteria were changed. It is now easier to qualify with hard-to-verify ailments, such as mental illness and back pain. Meanwhile, wage stagnation among the low-skilled makes disability benefits – which come with automatic annual increases and health insurance – more appealing, especially during recessions. One study found that ten years after starting on disability benefits, less than 4% of recipients had returned to work.

Some people are ripping off the programme. Last year New York City prosecutors charged 134 people for defrauding DI of about \$30m. Applicants, many of them former police officers or firemen, were coached in how to fake psychiatric illnesses such as depression or

anxiety. Many were plainly not disabled; one flew a helicopter, another rode a jet-ski and one taught martial arts. But fraud is only a small part of the problem. DI's whole design is antiquated. It presumes that people, once disabled, cannot work. If they do, they usually lose their benefits. Yet lots of people with disabilities can work: wheelchairs did not stop FDR from becoming president or Greg Abbott (pictured) from becoming governor of Texas.

Since 1999 the federal government has encouraged experiments to get beneficiaries back to work. Recipients can generally work full-time for up to a year, or part-time indefinitely, without losing their benefits. Randy Cook, who administers one such effort for a state-county agency in Binghamton, says many don't know that, so they are reluctant even to try.

Matthew, a builder in New York, went on disability after a car accident left him seriously injured. It was six years before he felt able to work again, but his first efforts to do so were half-hearted. "You get out of the [habit] when you're sitting at home, and the most you have to look forward to is 'The Price is Right' coming on at 11 in the morning," he says. "Even though you didn't make a lot of money it was easy to sit there, on the couch, collect a cheque, go to doctor's appointments. I might read the classifieds and see something that interested me, and never act on it. But I was fed up with it." Eventually Matthew met Mr Cook, who told him how to work without losing benefits, and to use acquaintances to look for jobs. In 2011 he found full-time work as an electrician and quit disability.

Doug, who is also a client of Mr Cook's, has been less lucky. He applies almost every day for jobs online, but has had few interviews and, so far, no offers. "One of my major fears at this point is that because I've been out of work for so long that I'm unemployable. Where I live, there are a lot of job seekers and not a lot of jobs to go around."

Fixing DI will not be easy. Pilot projects which allow people to keep more of their benefits have increased the number working, but not by enough to save much money, reckons Dave Stapleton of Mathematica, a consultancy. A more promising approach is to staunch the flow of people entering the programme by toughening eligibility criteria. Several European countries have tried this. The Netherlands in 1994 and 2002 required employers to pay disability benefits for up to two years, a spur to rehabilitating the employee as soon as possible. To receive long-term state benefits thereafter, beneficiaries must document their efforts to return to work. Sweden has restricted eligibility to those who can't do any job. In America, Mr Autor and Mr Duggan suggest expanding private disability cover, thus giving employers an incentive to keep workers working and speeding the return of the disabled.

Such reforms, though, would take years to show results. In all likelihood, a long-lasting fix to DI may require fixing Social Security as well, by restricting benefits for higher-paid workers, indexing annual benefit increases less generously, or raising the payroll tax. All are political poison. So although there will be much talk of fixing disability in the year to come, little is likely to get done.