



## Costs and Benefits of Eliminating the Medicare Waiting Period for SSDI Beneficiaries<sup>1</sup>

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The goal of the Social Security Disability Insurance (SSDI) program is to provide a safety net for individuals who must stop working because of a disability. However, there is a significant hole in the structure of that safety net with respect to health care coverage and access to care: although Medicare coverage is available to people with disabilities, they must wait for that coverage until 24 months after they become eligible for SSDI.<sup>2</sup> In this issue brief, we discuss the costs and benefits associated with eliminating the 24-month Medicare waiting period for new SSDI beneficiaries.

### Background

Considerable attention has been paid to the health insurance status of SSDI beneficiaries in the 24-month Medicare waiting period, primarily because many new beneficiaries are particularly vulnerable to high health care costs that immediate enrollment in Medicare could help defray. Studies based on focus groups and interviews with people with disabilities have illustrated very poignantly their hardships during this waiting period. At a time when health insurance coverage is needed most—when individuals have lost their health, jobs, income, and, for many, access to affordable health insurance—federal law requires them to wait two full years to become eligible for Medicare. Many uninsured SSDI beneficiaries in the Medicare waiting period skip medications, postpone needed care, become depressed and anxious about the future, and express a sense that they are not in control of their own lives. Others experience severe financial hardships and are unable to maintain employer-sponsored coverage under COBRA provisions during the waiting period because of very high premiums (Williams et al. 2004; Hayes et al. 2007).

Since 1972, when Medicare was first expanded to cover SSDI beneficiaries, disability advocates and members of Congress have unsuccessfully fought to reduce or eliminate the waiting period. In implementing the two-year waiting period, Congress wished to “proceed on a conservative basis,” striving to keep costs down, avoid private coverage crowd-out, and ensure that only those with long-lasting disabilities were given access to the benefits. Congress was also concerned about creating greater incentives for workers to exit the workforce and apply for SSDI benefits as well as dealing with difficulties in administering a retroactive benefit (Whittaker 2005).

### SSDI Beneficiaries Before, During, and After the Waiting Period

Data from the 1994–1996 National Health Interview Surveys (NHIS), linked to SSDI and Medicare program data, were used to profile SSDI disabled-worker beneficiaries during the three years immediately preceding and following SSDI entry, including the two years in which beneficiaries were in the Medicare waiting period (Livermore et al. 2009). Our findings indicate that beneficiaries experienced dramatic changes during this time, including marked declines in health and increases in health care utilization; a two-fold increase (after SSDI entry) in the share of beneficiaries living in households with incomes below

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<sup>2</sup> Exceptions to the 24-month waiting period include new SSDI beneficiaries with end-stage renal disease (eligible for Medicare after a 3-month waiting period) and amyotrophic lateral sclerosis (eligible for Medicare without a waiting period).

the federal poverty level; and an increase in health care access problems, with the peak spanning the years immediately before and immediately after SSDI entry. We also found that an estimated 13 percent of entrants die before they complete the Medicare waiting period. These workers paid Medicare payroll taxes throughout their working lives but never received any benefit.

Changes in health insurance coverage during the period surrounding SSDI entry are particularly relevant to policy discussions regarding eliminating or reducing the 24-month waiting period. Table 1 provides information about how key sources of health insurance coverage change during this period. As a group, SSDI beneficiaries experience high rates of uninsurance until the third year after SSDI entry. A marked decline in own-employer coverage over the same period is offset by an increase in Medicaid coverage. Employer-sponsored coverage through a family member declines somewhat during the period preceding SSDI entry but remains fairly constant thereafter.<sup>3</sup>

Another relevant issue is that most beneficiaries become entitled to SSDI retroactively—that is, their official SSDI entitlement month (the month in which their benefits begin) typically precedes their SSDI award month (the month in which their award decision is made). This is because it can sometimes take many months—or even years—before an SSDI claim is allowed. The average processing time for a disability claim at the initial decision level is about 90 days (U.S. Government Accountability Office 2007), and processing times are substantially longer for claims that are initially denied and then subsequently allowed during the appeals process. Also, those who are eventually allowed SSDI benefits might not file a disability claim immediately

following the onset of disability. Hence, by the time SSDI beneficiaries are notified that their claim has been allowed, many have completed all or part of the Medicare waiting period. We found that 11 percent of beneficiaries had completed the entire waiting period by the time their claim was allowed, and another 25 percent had one year or less remaining. On average, people in our study sample had about 15 months (or 63 percent) of the 24-month period remaining as of the SSDI allowance month (Livermore et al. 2009).

These findings indicate that, for many, elimination of the Medicare waiting period would not help them immediately upon SSDI entry; although SSDI cash benefits can be awarded retroactively, retroactive Medicare coverage would presumably be of much less value to the beneficiary because it would not be available at the time treatment decisions are being made.

### Costs and Benefits of Eliminating the Waiting Period

We estimate that eliminating the Medicare waiting period would increase annual Medicare costs (including Part D) by approximately \$14 billion, *provided that all SSDI beneficiaries are enrolled throughout the entire 24-month period* (Table 2).<sup>4</sup> This represents about three percent of total Medicare program expenditures in 2006. Thus, while \$14 billion is a large increase in Medicare expenditures for SSDI beneficiaries, it represents a relatively small share of total program costs.<sup>5</sup>

Although the \$14 billion estimate is based on the assumption that all beneficiaries would be enrolled in Medicare throughout the 24-month waiting period, for many

**Table 1. Selected Sources of Health Insurance Coverage of Disabled Workers Before and After SSDI Entry**

| Source of Health Insurance (%) | Prior to SSDI Entry |              |             | After SSDI Entry |              |              |
|--------------------------------|---------------------|--------------|-------------|------------------|--------------|--------------|
|                                | 25–36 Months        | 13–24 Months | 1–12 Months | 1–12 Months      | 13–24 Months | 25–36 Months |
| None (uninsured)               | 22                  | 21           | 23          | 23               | 17           | 4            |
| Medicaid                       | 6                   | 7            | 8           | 17               | 21           | 29           |
| Own employer                   | 40                  | 41           | 37          | 26               | 21           | 16           |
| Family member’s employer       | 39                  | 37           | 33          | 30               | 35           | 31           |

Source: Livermore et al. 2009.

Note: SSDI beneficiary cohorts include NHIS sample members age 18–64 who became entitled to SSDI based on their own work histories within 36 months (before or after) the month the household was interviewed in the NHIS. The SSDI entitlement (entry) month is based on the date associated with the latest entitlement occurring during the 36-month period before and after the interview month. Health insurance coverage status could not be ascertained for approximately 10 percent of sample members in each SSDI entitlement cohort. Percentages do not sum to 100 because not all sources are shown and because individuals may have multiple sources of coverage.

<sup>3</sup> The decline in employer-sponsored coverage via a family member—from 39 percent in the third year prior to SSDI entry to 30 percent in the first year after entry—is statistically significant at the 0.05 level. The shares reporting this type of coverage during the three periods after SSDI entry are not statistically different.

<sup>4</sup> Details of the cost estimation methodology are provided in Appendix C of Livermore et al. (2009).

<sup>5</sup> Our estimate of the cost of eliminating the full Medicare waiting period is substantially higher than those developed in previous studies (Dale and Verdier 2003; Riley 2004). The differences are primarily due to medical cost inflation, the inclusion of Medicare Part D costs in our estimates, and growth in the annual number of SSDI awards since the previous studies were conducted.

**Table 2. Estimated Annual Cost of Eliminating the Medicare Waiting Period for SSDI Beneficiaries, 2006 Dollars**

|  | <b>24 Months of Coverage<br/>(Retroactive Coverage)</b> | <b>Coverage Begins at SSDI Award<br/>(Coverage Not Retroactive)</b> |
|--|---|---|
| Annual Medicare cost of eliminating the waiting period | \$13.9 billion  | \$8.7 billion   |
| Net of offsetting federal Medicaid savings (range)     | \$11.1–\$11.9 billion                                   | \$6.9–\$7.4 billion   |

Source: Livermore et al. 2009.

beneficiaries, coverage would likely not take effect until the month of their SSDI award—on average, the ninth month of the waiting period. If medical costs are distributed uniformly over the entire waiting period, the cost of Medicare coverage during the waiting period and *commencing with the SSDI award month* would be only 62.5 percent of the cost of coverage for the full 24 months, or an estimated \$8.7 billion. This estimate would be lower if higher health care costs in the first 12 months after SSDI eligibility were taken into account (Livermore et al. 2009). But the estimate would be higher if we assume that beneficiaries might delay some care until Medicare coverage becomes available.

Another factor to consider when estimating the cost of eliminating the waiting period is the expected reduction in Medicaid expenditures for SSDI beneficiaries during that period. Information on Medicaid coverage for SSDI beneficiaries during the waiting period is poor, and we think our estimates (shown in Table 1) are likely to be low. Based on several sources, we assume that 25 to 35 percent of SSDI beneficiaries in the waiting period have Medicaid coverage in any given month once their claims have been allowed (see Appendix C of Livermore et al. 2009). Elimination of the waiting period would reduce federal expenditures for Medicaid by an estimated \$2 billion to \$2.8 billion (\$1.3 billion to \$1.8 billion if coverage were not retroactive).

The Congressional Budget Office (CBO) (2008) estimates that phased elimination of the Medicare waiting period would increase federal outlays, net of federal Medicaid savings and revenue increases, by \$11.6 billion in 2013 (the first post phase-in year in the CBO projection) in current-year dollars or \$10.2 billion in 2006 dollars (for purposes of comparison to our estimates).<sup>6</sup> This estimate is higher than our \$7.4 billion estimate for elimination of the waiting period without retroactive eligibility and lower than our \$12 billion estimate with full retroactive eligibility. The differences between these estimates and that of CBO appear to reflect the following: (1) CBO assumes a partial retroactive benefit (for Part A only, and with very limited use by those with private coverage); (2) the CBO estimate of Medicaid savings is somewhat higher; (3) CBO projects small increases in tax revenues because of reductions in employer

health care expenses that translate into higher wages; (4) CBO’s estimate for Medicare expenditures per beneficiary, based on average expenditures for all Medicare beneficiaries, does not adjust for the extraordinarily high health care utilization concurrent with SSDI entry, whereas our own methodology does; and (5) CBO projections are for a year when, under current policy, the number of beneficiaries in the waiting period would be larger than in 2006.<sup>7</sup>

However, our cost estimates might be too low for a couple of reasons. First, elimination of the waiting period would crowd out some private insurance coverage. But our findings regarding the health insurance coverage of beneficiaries before and during the waiting period suggest that this crowd-out would be limited. Own-employer coverage is already low during the waiting period, and it drops by only 10 percentage points from the first year of the waiting period to the first year after the waiting period. Private coverage via a family member remains essentially unchanged over the same period (Table 1). This suggests that the reduction in private coverage in response to Medicare eligibility will be no more than 10 percent. The expenditure models used to produce our estimates indicate that, on average, expenditures for those in the waiting period with private coverage would be about \$2,900 less than for those without private coverage. Therefore, crowd-out might add about \$0.5 billion to \$0.8 billion to our estimates for the full 24 months (\$0.3 billion to \$0.5 billion if coverage begins at SSDI award).

Another potential result of eliminating the waiting period is an induced demand for SSDI—that is, more workers might apply for and receive SSDI because it would become a more attractive route to public health insurance. Given the increasing restrictiveness of private coverage for workers, some induced entry into both SSDI and Medicare seems quite likely. However, our findings do not shed light on the extent to which this would occur. Individuals who lack adequate private coverage and have significant health care needs are most likely to be induced to apply for SSDI as well as those who remain employed primarily to maintain coverage but otherwise gain relatively little from employment in terms of compensation or personal satisfaction.

<sup>6</sup> We used CBO’s Personal Consumption Expenditure index to deflate the CBO projections.

<sup>7</sup> CBO does not provide an estimate but starts with a figure of 1.8 million beneficiaries for December 2007, which is higher than our 1.66 million estimate for 2006 (see Livermore et al. 2009). This number is likely to grow because of the aging of the baby boom generation.

For both groups, however, significant deterrents to SSDI entry would remain: the Social Security Administration's medical eligibility standards; the five-month waiting period between disability onset and eligibility for benefits; the likelihood that it would take much longer than five months for approval of SSDI benefits; and the chance that the SSDI application will ultimately be denied, leaving the applicant without a job, let alone insurance.

Induced demand for SSDI would be a nonissue if affordable and reliable health insurance coverage were universally available to workers with medical conditions that might lead to labor force exit and SSDI entry. There is some evidence that access to health insurance is an important factor in the labor force participation decisions of workers with disabilities (MacDonald-Wilson et al. 2003; Kreider and Riphahn 2000; Stapleton et al. 1998; Yelowitz 1998). This evidence indicates that delinking eligibility for public health insurance from eligibility for federal disability programs would promote employment among people with disabilities. If future health reforms make affordable health insurance coverage more available to workers at risk of leaving the labor force because of disability, there may be less induced demand for SSDI if the Medicare waiting period were eliminated. Thus, the cost associated with induced demand reflects a failing of the current system for financing the health care of workers.

Although our estimates indicate that the cost of eliminating the waiting period would be substantial, those costs need to be weighed against important potential benefits. First, fewer beneficiaries would delay or forgo needed health care because of out-of-pocket cost. Medicare coverage during the waiting period would allow a large number of individuals to obtain needed health care that they might forgo under current policy, at a time when their needs are quite substantial.

Second, elimination of the waiting period would reduce the financial hardships experienced by individuals and their families who must pay high out-of-pocket costs for medical care due to lack of insurance, including those with high COBRA premiums.<sup>8</sup> Indirect evidence of the burden of COBRA premiums comes from the 20 percentage point decline in own-employer coverage from the second year prior to SSDI entitlement to the second year after (Table 1). It

seems likely that a substantial share of this decline reflects an inability to pay the COBRA premiums.<sup>9</sup> Those who cannot maintain COBRA coverage and do not have options through a spouse's employer can resort to Medicaid if they meet the typically strict income and asset requirements, or else they go uninsured.

Third, eliminating the waiting period would reduce Medicaid program expenditures for states. The Medicaid savings noted earlier represent only the federal share. Annual state savings would likely be \$1.5 billion to \$2.1 billion (Livermore et al. 2009).

Finally, better coverage and access to health care during the waiting period might lead to improved health and increased or earlier return to work. There is some evidence that access to health care prior to Medicare eligibility is associated with reduced health care utilization and expenditures after Medicare eligibility (McWilliams et al. 2007). Thus, earlier access to Medicare among SSDI beneficiaries might lead to reduced long-term Medicare program expenditures. If earlier access leads to improved health and increased return to work, federal payroll and income tax revenues would also increase, and perhaps more SSDI beneficiaries would exit for work.

### Implications for Broader Health Care Reform

As our discussion of induced demand suggests, elimination of the Medicare waiting period is an incomplete solution to a much larger problem with the current health care financing system. Many workers with disabilities or high-cost health conditions do not have adequate coverage, as evidenced by the fact that an estimated 22 percent of SSDI beneficiaries have no coverage in the three years prior to SSDI entry, and many forgo or delay care (Livermore et al. 2009). Improvements in coverage and access for this broader group ought to be a critical issue for health care reform, in part because of the high need and in part because it would help some individuals stay in the labor force and avoid entry into SSDI. One important criterion for judging the adequacy of any health reform proposal is the extent to which it will meet the needs of workers with significant health conditions—and whether it will continue to meet their needs if they must exit the labor force and apply for SSDI.

<sup>8</sup> Under COBRA, the individual typically pays the entire premium cost, which, in 2006, averaged about \$350 per month for individual coverage (Claxton et al. 2006). For people with disabilities, employers are permitted to charge up to 150 percent of the actual premium during the additional 11 months some individuals with disabilities are granted under COBRA, so premiums may be substantially higher.

<sup>9</sup> Some may lose eligibility for COBRA coverage after 18 months if the extended coverage is not granted because the individual cannot establish that disability onset occurred during the first 60 days of COBRA coverage, a condition required for the additional 11 months of this coverage.

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