



# Filling holes in the safety net? Material hardship and subjective well-being among disability benefit applicants and recipients after the 1996 welfare reform

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## ABSTRACT

Some of the rapid recent growth in disability income receipt in the United States is attributable to single mothers post-welfare reform. Yet, we know little about how disability benefit receipt affects the economic well-being of single mother families, or how unsuccessful disability applicants fare. We compare disability recipients to unsuccessful applicants and those who never applied among current and former welfare recipients, and examine how application and receipt affect material hardships and subjective measures of well-being. We then examine whether alternative ways of making ends meet mediate differences in well-being. After controlling for alternative sources of support, no significant differences in overall actual hardships or difficulty living on current income remained between the three groups. However, even after controlling for these strategies, unsuccessful applicants were significantly more likely to report that they expected hardships in the next two months. Our results suggest a pervasive level of economic insecurity among unsuccessful applicants.

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## 1. Introduction

The past 30 years have seen dramatic increases in the number of recipients of the Social Security Administration's two disability programs. In 2009, the Supplemental Security Income (SSI) program provided means-tested income support to 4.5 million blind and disabled low-income adults who met its disability criteria, and to another 1.2 million blind and disabled children under the age of 18. These numbers represent an 82% increase in the non-elderly adult SSI caseload since 1990, and a 289% increase in the child SSI caseload. The Social Security Disability Income Program (SSDI) is a social insurance program which provides benefits to disabled workers who have a sufficient work history to qualify, independent of income and assets tests. In 2009, 7.8 million disabled workers received benefits through SSDI, up 158% since 1990.<sup>1</sup>

Some of this caseload growth, particularly with respect to SSI, stems from increased receipt by single mothers, especially since passage of the Personal Responsibility and Work Reconciliation Act (PRWORA) and the introduction of the Temporary Assistance for Needy Families Program (TANF) in 1996. Welfare reform had both direct and indirect effects on SSI participation (Schmidt, 2004). There is also evidence that SSI and SSDI are serving as a “back-up” safety net now that it is much more difficult to qualify for and continue to receive cash assistance. Wamhoff and Wiseman (2005/06) conclude that “a significant proportion of each year's SSI awards to disabled non-elderly people [now] go to TANF recipients.”

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<sup>1</sup> Program growth between 1993 and 2003, years more closely surrounding passage of welfare reform, was 25.6% for adult disabled SSI cases, 32.8% for child SSI, and 57.6% for SSDI.

Although there is evidence that the disabled have lower economic well-being and higher rates of material hardship than the non-disabled (She and Livermore, 2007; Parish et al., 2009), we know little about the well-being of disability benefit recipients. If disability benefits significantly reduce the incidence of material hardships, SSI and SSDI would represent an alternative safety net for disabled former cash welfare recipients who are able to navigate the complex disability determination process.

We know even less about how unsuccessful applicants for disability benefits fare in terms of well-being, which is important given that less than half of these applicants are approved in their first attempt at the application process (Benitez-Silva et al., 1999). In the pre-welfare reform era, an unsuccessful applicant could remain on Aid to Families with Dependent Children (AFDC) as long as she met the program's eligibility rules; post-1996, qualifying for cash welfare is much more difficult and TANF receipt is limited to no more than 60 months. If disabled single mothers who were previously welfare recipients have great difficulty qualifying for SSI/SSDI, this could lead to higher levels of material hardship for a vulnerable population.

In this paper, we analyze data from the Women's Employment Study, a 6½ year panel with detailed measures of health conditions and material hardship, and compare disability benefit recipients to unsuccessful applicants and to those who never applied for benefits among a sample of current and former welfare recipients. We examine how application and receipt status affect the extent of material hardships, as well as subjective measures of economic well-being. We then examine the extent to which differences in well-being among these three groups can be explained by observable differences in health conditions, as well as by unobserved heterogeneity across respondents. Finally, we analyze whether alternative ways of making ends meet mediate differences in well-being across application and receipt status.

We find that while both successful and unsuccessful applicants have higher levels of overall material hardship than those who never applied, there are no significant differences in these measures between successful and unsuccessful applicants. However, unsuccessful applicants are significantly more likely to report that they expect future hardships than either of the other two groups. After controlling for alternative sources of support, no significant differences in difficulty living on current income remained between the three groups. However, even after controlling for these strategies, unsuccessful applicants were significantly more likely to report that they expected hardships in the next two months. Our results suggest a pervasive level of economic insecurity among unsuccessful applicants.

## 2. Background

### 2.1. The Social Security Administration's disability programs

The Social Security Administration provides income support to disabled individuals through two programs. The Supplemental Security Income (SSI) program is the only fully-federal cash transfer program for the non-working poor, providing means-tested benefits to the elderly, blind and disabled.<sup>2</sup> SSI differs from Social Security Disability Insurance (SSDI), a social insurance program which provides benefits to disabled workers who have a sufficient work history to qualify, independent of income and assets tests. To qualify for SSDI, workers generally need 40 quarters of covered work, 20 of which were in the last 10 years ending with the year the disability occurred. However, the work requirements are adjusted downward for younger workers.<sup>3</sup>

Applicants to both programs must complete the same complicated, five-stage disability determination process to receive benefits. At the first stage, individuals must show that they are not involved in "substantial, gainful" economic activity. If an applicant earns more than the "Substantial Gainful Activity" (SGA) amount (\$1000 per month in 2011) s/he is denied at this stage. The second and third stages involve medical evaluations. Those with "non-severe" impairments or impairments that are not expected to end in death or last at least 12 months are denied in Stage 2, and those with extremely severe impairments (those on an SSA list) are immediately allowed in Stage 3. Stages 4 and 5 consider capacity to work. Applicants who are able to work in jobs that they held in past are denied in Stage 4, and applicants who, given their age, education, and work experience, are judged able to work in any type of employment in the economy are denied in Stage 5.<sup>4</sup>

Existing literature examines the decision to apply for disability benefits and finds that applicants are significantly more disadvantaged than those who never apply in terms of all types of observable health conditions (Benitez-Silva et al., 1999; Benitez-Silva et al., 2004; Lahiri et al., 2008). Males, African-Americans, and the less-educated are more likely to apply for disability benefits (Benitez-Silva et al., 1999; Lahiri et al., 2008), although Benitez-Silva and coauthors find that the racial differences in application propensities can be entirely explained by differences in health conditions.<sup>5</sup>

Less than half of all disability applicants are approved in the first round of the application process (Benitez-Silva et al., 1999). In an analysis of the SSDI determination process, Lahiri et al. (1995) find that of denials, roughly one-third are due to applicants having non-severe impairments, one-third to the applicant being judged able to perform his/her usual work, and one-third to the applicant being judged able to perform some other work. They find that denial rates are negatively cor-

<sup>2</sup> The majority of SSI funding is federal, but a number of states do supplement federal benefits with state funds.

<sup>3</sup> Workers aged 24–31 may qualify for SSDI if they have credit for working half the time between the age of 21 and the time they become disabled (see <http://www.socialsecurity.gov/retire2/credits3.htm>).

<sup>4</sup> See Lahiri et al. (1995) for a detailed description of the disability determination process.

<sup>5</sup> Bound et al. (2003) analyze household income of both SSDI and SSI applicants. SSDI applicants are older, more highly educated, and have more financial wealth than SSI applicants. They are also more likely to be male, white, non-Hispanic, and married.

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