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Policy Brief

Program Expenditures for Working-age People with Disabilities in a Time of Fiscal Restraint

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Introduction

Public expenditures in federal and federal-state programs for working-age people with disabilities totaled an estimated $276 billion in 2002. The federal share of these expenditures, $226 billion, was 11.3 percent of all federal outlays; states contributed an additional $50 billion[1]. These expenditures accounted for about 2.7 percent of the nation's gross domestic product (GDP)[2] and are growing much faster than GDP and all federal outlays. Most

expenditures were for income support and health care to people with disabilities who were not employed or who had very low earnings.

The fact that the relative economic well-being of working-age people with disabilities is falling has prompted increased scrutiny of how money is spent and whether there are any significant policy reforms that should be pursued (Stapleton and Burkhauser, 2003). This scrutiny will become more intense if the federal deficit rises, as it is projected to do, and the prevalence of disability grows as the baby boom generation ages.

These circumstances make it an opportune time to re-evaluate the structure of federal disability programs and whether they are properly aligned with the evolving disability paradigm—a paradigm that stresses helping people with disabilities help themselves to be full members of the economic and social lives of their communities, rather than objects of charity (Stapleton et. al, 2005).

Types of Expenditures

The two largest categories of expenditures --income security and health care--accounted for 96 percent of federal and federal-state expenditures for working-age people with disabilities. (Exhibit 1).

Exhibit 1: Federal and Federal-State Program Expenditures for Working-age People with Disabilities in Fiscal Year 2002, by Category of Expenditures

Category	Expenditures (in $ millions)	Percent of Total
Income Maintenance	115,507	41.9%
Health Care Programs	149,590	54.2%
Housing and Food	5,545	2.0%
Education, Training, and Employment	4,092	1.5%
Other	1,295	0.5%
Total	276,029	100.0%

1 We have not attempted a complete accounting of state and local expenditures for working-age people with disabilities under non-federal programs, but they are substantial. For instance, they would include $12.4 billion for mental health (Lutterman et al 2003), and $4.9 billion for Mental Retardation and Developmental Disabilities (Rizzolo et al 2004).

2 Based on a GDP of $10.5 trillion in 2002 reported by the Bureau of Economic Analysis. Available at http://www.bea.doc.gov/bea/dn/gdplev.xls

Eligibility for several of the large programs, most notably Medicare and Medicaid, is tied to eligibility for SSI or SSDI. Together, cash assistance and health care for the 8.7 million beneficiaries of these two programs totals $207 billion, or $23,900 per beneficiary.

Policy Implications

Much consideration is being given to disability policy reforms that would bring disability programs more in line with the goals of the Americans with Disabilities Act, the aspirations of people with disabilities, and advances in technology and medical care. In considering such reforms, it is critical to be aware of the size and distribution of current expenditures. Seventy-six percent of the $276 billion of expenditures is for cash support and health care for working-age people who, according to the Social Security Administration, are unable to work. Total spending on cash assistance and health, including support for people with disabilities who are not in SSDI or SSI, accounts for 96.1 percent of the total. Relatively little is spent on programs that are designed to attain the goals embodied in the new policy paradigm; only 1.5 percent of funding is spent on education, training, and employment.

To promote independence and productivity, we could increase expenditures on programs that promote these goals, and leave others largely intact. This approach is unrealistic, however, because of current and projected federal deficits. The federal government ran a $319 billion deficit in 2005 (Snow & Bolton, 2005). Further, in the absence of major policy change, deficits are expected to grow rapidly in the future, driven partly by the entry of the baby boom generation into its retirement years (Walker, 2004). Thus, it is more realistic to expect real cuts in disability programs as deficit pressures increase. The sheer size of the major disability programs, along with the fact that program expenditures have been growing at a much faster rate than overall growth in federal expenditures, makes them particularly vulnerable to cuts. Over a decade and a half, federal expenditures on working-age people with disabilities have grown from 6.1 percent to 11.3 percent of federal outlays and from 1.4 percent to 2.2 percent of GDP.[1]Such growth cannot be sustained indefinitely.

Realistically, policy reforms that promote independence are not likely to be adopted unless they reduce the rate of growth of government expenditures on disability programs to a sustainable rate. Given the current distribution of federal and state expenditures for this population, such policies would almost certainly have to reduce expenditures for cash assistance and health care.

There are compelling arguments for a host of incremental changes to reduce expenditures and promote independence. For example, expensive medical rehabilitation, residential programs, and long-term care could be reallocated to lower-cost personal assistance and support services; additional work incentives such as a benefit

1 Expenditures for working age people with disabilities in 1986 based on Berkowitz and Greene (1989).

offset[1] could be added to SSDI to increase beneficiary earnings and reduce benefit costs; and greater investments could be made in the education, training, and retraining of people with disabilities. Incremental changes such as these, however, may neither substantially stem growth in public expenditures nor improve the lives of people with disabilities. A more fundamental restructuring of the disability support system may be necessary to achieve both objectives (Stapleton et al., 2005).

It is a formidable challenge to restructure these programs in a fiscally sustainable way that also does not substantially harm many of the people with significant disabilities who rely heavily on current programs. If reforms do not address this challenge, however, it seems likely that the economic and social well-being of working-age people with disabilities will continue to fall further behind that of the remainder of the working-age population.

For a description of the expenditures included in the calculations, contact Nanette Goodman at: ng54@cornell.edu.

This policy brief is based on a paper by Goodman and Stapleton titled, "Federal Program Expenditures for Working-age People with Disabilities," forthcoming in the *Journal of Disability Policy Studies.*

1 A benefit offset would replace the abrupt loss of cash benefits in the SSDI program when a beneficiary earns over a specific amount with a gradual reduction in benefits.

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