

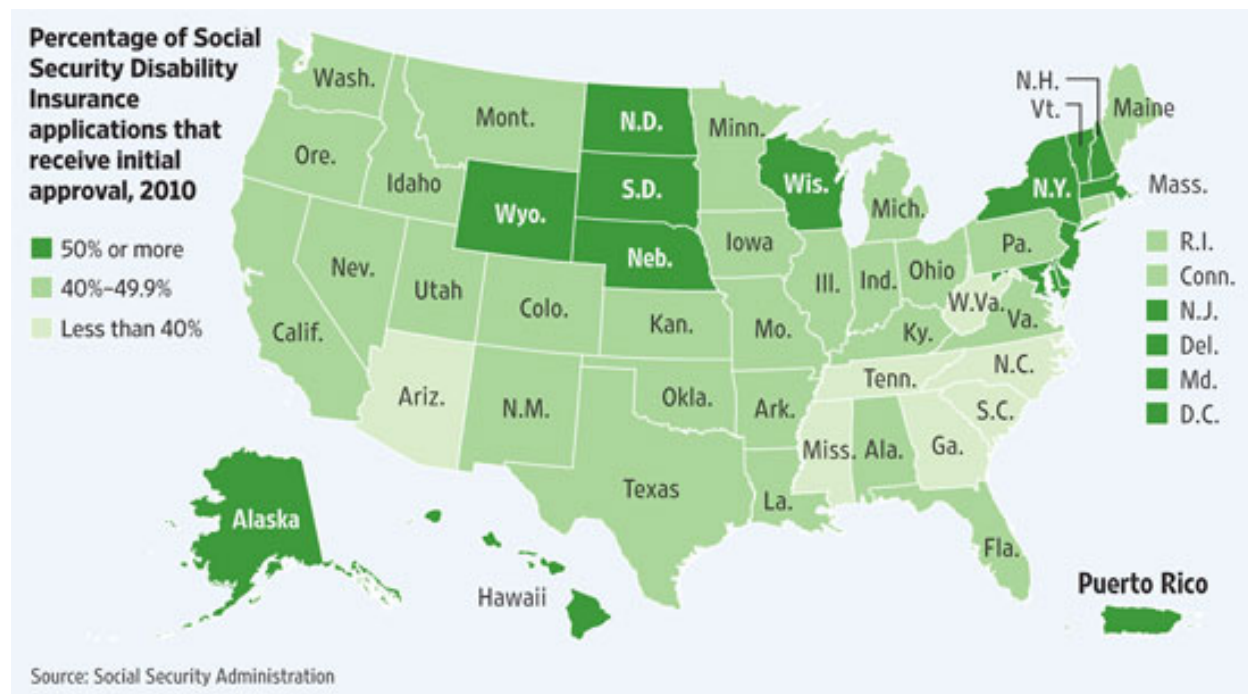
“Insolvency Looms as States Drain U.S. Disability Fund”¹

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CAGUAS, Puerto Rico—This mountainside town is home to a picturesque cathedral, a tobacco museum and a Wal-Mart Supercenter. Another defining feature: Caguas's 00725 zip code has more people who receive a disability check than any other in the U.S.

Puerto Rico has emerged in recent years as one of the easiest places in the U.S. to get payments from the Social Security Disability Insurance program, created during the Eisenhower administration to help people who can't work because of a health problem. In 2010, 63% of applicants there won approval, four percentage points higher than New Jersey and Wyoming, the most-generous U.S. states. In fact, nine of the top 10 U.S. zip codes for disabled workers receiving benefits can be found on Puerto Rico.



The SSDI is set to soon become the first big federal benefit program to run out of cash—and one of the main reasons is U.S. states and territories have a large say in who qualifies for the federally funded program. Without changes, the Social Security retirement fund can survive intact through about 2040 and Medicare through 2029. The disability fund, however, will run dry in four to seven years without federal intervention, government auditors say.

In addition to the uneven selection process, SSDI has been pushed to the brink of insolvency by the sour economy. A huge wave of applicants joined the program over the past decade, boosting it from 6.6 million beneficiaries in 2000 to 10.2 million in 2010. New recipients have come from across the country, with an 85% increase in Texas over 10 years and a 69% increase in New Hampshire.

Over the years, Puerto Rico's dependence on SSDI has grown particularly stark, exacerbated by the closure of factories and U.S. military installations, an exodus of skilled workers and a number of corruption scandals.

¹ [“Insolvency Looms as States Drain U.S. Disability Fund”](#), Wall Street Journal, Damian Paletta, March 22, 2011.

Seated next to a wooden statue of an angel in his office, Pedro Torres-Morales, a doctor in the south Puerto Rican town of Maunabo, described the situation as "a political problem, an economic problem, a health problem, a social problem."

To others, it's mainly a matter of abuse. "The mentality is that it's 'big, rich Uncle Sam's money,'" said Ivan Gonzalez-Cancel, a prominent Democrat and cardiac surgeon in San Juan who is planning to run for governor in 2012 for the New Progressive Party. He said the system is rife with corruption, something local and federal officials deny.

Unlike Medicare or the Social Security retirement fund, which provide benefits mostly based on age, SSDI decisions are based in large part on medical opinions, which can vary from doctor to doctor, state to state.

Because someone else pays the bills, local officials have little incentive to keep the numbers low. The feds have tried to enforce consistency, but the process relies heavily on the judgment of doctors and administrative law judges who hear appeals.

Benefits can be modest: In 2009, they averaged \$1,064 a month. But the program opens up access for recipients to other government programs, multiplying the ultimate cost to taxpayers.

Anyone who spends two years on SSDI qualifies for the Medicare health program, which usually is available only for those 65 years old and older. SSDI recipients tend to remain tethered to the program for years, and the government's lifetime financial commitment averages \$300,000 per person, estimates David Autor, an SSDI expert who teaches at the Massachusetts Institute of Technology. "The system has profound problems," Mr. Autor said.

SSDI's financial woes pose a major test for the White House and Congress, which have been reluctant to tackle the budget-busting costs of entitlements.

Analysts who track the program say the only short-term way to save it without raising taxes would be to fold it into the fund that pays Social Security. That would likely force retirees to face benefit cuts two or three years sooner than they otherwise would have done, because SSDI costs would diminish retirement funds.

Supporters say SSDI serves a vital need for millions of people who have paid into the system, qualify for the benefits and depend on the income. Some contend its problems can be fixed by raising taxes or by diverting money from the Social Security fund for retirees.

"This is a program of crucial importance to every working American and his or her family," said Nancy Altman, co-director of Social Security Works, a group that fights cuts in Social Security benefits.

Critics have raised concerns about the solvency of the program, backed by a report last year from the nonpartisan Government Accountability Office alleging that the government was paying benefits to some people who didn't deserve them.

Millions of Americans fund the program through a portion of the Federal Insurance Contributions Act tax that's tied to their income.

The disability insurance trust fund was created in 1957 to provide a backstop to people who worked several years before suffering a debilitating illness or injury. Disability beneficiaries can now include those with cancer, chronic back pain, persistent anxiety and schizophrenia.

Applicants should no longer be able to work in a substantial, gainful way, and must provide medical records affirming the likelihood the applicant won't be able to work for at least another year, or that their health problems would eventually result in death.

The program has been a feature in agricultural, manufacturing and urban communities across the U.S., particularly where unemployment rates are high. As a percentage of total population, more SSDI money flows to West Virginia than anywhere else, according to government data. Experts attribute high concentrations there to unemployment and health problems related to manual labor.

Still, West Virginia has one of the highest rejection rates of applicants anywhere in the country, with just 36.7% of applicants making it into the programs on their initial applications last year, compared to a national average of 46.9%.

In 2005, SSDI began spending more money than it brought in through tax receipts. In 2010, the number of beneficiaries grew by 489,488, the largest one-year increase ever. It is projected to spend \$153 billion on benefits and other costs in 2015, \$22 billion more than it brings in through tax revenue and other income. Its surplus funds built up over the years are expected to be extinguished in four to seven years.

Puerto Rico has long had an outsize reliance on disability benefits. The island has had a double-digit jobless rate for most of the past 30 years, settling at 15.7% at the end of December. Doctors here say as people find it harder to get a job, they apply for disability benefits.

Even though Puerto Rico's population fell in the past 10 years, from 3.8 million people in 2000 to roughly 3.7 million today, the number of people on SSDI rose 25% from 2000 through 2009 to 188,298. The Social Security Administration sent roughly \$163 million a month in SSDI benefits to Puerto Rico in 2009, the last available full-year data, accounting for 2% of the program's total spending.

In 2006, just 36% of applicants in Puerto Rico were approved for benefits. By 2010, the rate had rocketed. In December, 69% of applicants were approved, the highest one-month approval rate by any state or U.S. territory since 2002.

On a recent weekday, 20 people waited for their names to be called inside the Social Security Administration's third-floor office in Caguas under framed portraits of President Barack Obama, Vice President Joseph Biden and SSA Commissioner Michael Astrue.

The pale-blue room looked like any other government office, with 22 customer-service windows and a white SSA seal on the glass door.

Twenty-seven miles away is the zip code with the second-most SSDI beneficiaries— 00767—home to the coastal town of Yabucoa and its 22% unemployment rate. At the end of 2009, 3,385 people, about 15% of its residents, received SSDI benefits.

Lisette Franceschi, from Peñuelas, Puerto Rico, lost her job as a hospital nurse during a round of layoffs in 2008. The 54-year-old fell into a depression that she said required psychiatric help. "I had panic attacks, I couldn't go out alone, I couldn't drive," she said. "There was no way I could work."

Seven months after her layoff, in late 2008, she applied for SSDI and was denied for "insufficient information." Later, a bone scan detected she had an incipient form of arthritis, and she applied again in early 2009. In November 2010, she told her story to a judge, detailing her layoff, the depression and her arthritis. She was granted \$1,084 a month in benefits, retroactive to when she filed in early 2009.

Marcos Rodriguez-Ema, chief of staff to Puerto Rico Gov. Luis Fortuno, said he couldn't explain why the island's approval rate has spiked. He speculated more people were pursuing cases because it was harder to find jobs and decent health care. He said it wasn't the result of any change in policy on the island.

Beatrice Disman is in charge of the Social Security Administration's New York region, which oversees operations in Puerto Rico. She said the island has to follow national regulations. "They are not free to do things on their own," she said. "How you make a disability decision is the same in Puerto Rico as it is in New York, and they must follow the same rules."

She said a routine external review found that cases in Puerto Rico were decided accurately 99% of the time in 2010. One reason the approval rate has increased is that the government has hired more people in recent years to process applications for benefits, which has expedited the process, Ms. Disman said.

Government officials say there are a number of checks in place to prevent inconsistencies, including backup screenings conducted remotely, meant to stop people from obtaining benefits who don't meet federal standards.

Doctors, lawyers, and others say standards are left to the interpretation of the many officials involved in the process, which makes it easier for people to get into the system. The \$1,000-a-month SSDI check can pay almost as much as a low-wage job in Puerto Rico, and it comes with access to health care.

Administrative law judges in Puerto Rico, who make decisions in cases that are initially rejected or need further review, approved full or partial benefits in 80% of the cases they reviewed in fiscal 2010, according to data reviewed by The Wall Street Journal. One judge in San Juan, Manuel del Valle, approved 98% of the cases brought to him during that span, according to data reviewed by The Wall Street Journal. Mr. del Valle, through a Social Security spokesperson, declined to comment.

Doctors in the area say applicants are still pouring into the system. Several said the SSDI program has become so large, and in some cases so dependent on medical opinions, that patients have worked out which doctors and government officials are less stringent, a phenomenon that lawyers in the U.S. said is also occurring in different parts of the country. They say this explains the high concentrations of beneficiaries in certain areas.

"I tell my secretary that I won't see someone in my office just to fill out forms for the Social Security Administration," said Carlos G. Diaz Silva, a doctor from the southern town of Ponce, who until recently headed the Puerto Rico chapter of the American Psychiatric Association. "It makes me very uncomfortable because there's already an economic consideration."