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Elimination of Medicare's Waiting Period for Seriously Disabled Adults: Impact on Coverage and Costs

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Medicare provides health insurance coverage to people with disabilities and chronic illnesses who are entitled to cash benefits under the Social Security Disability Insurance (SSDI) program. In most cases, however, these individuals must first wait five months for disability benefits and then an additional two years before they can receive Medicare benefits. We estimate that there were 1.26 million SSDI beneficiaries in the Medicare waiting period as of January 2002, all of whom are unable to work because of their disability and most of whom have serious health problems, low incomes, and limited access to health insurance.

Our research shows that eliminating the two-year wait for Medicare could improve access to health insurance for many seriously disabled Americans, including as many as 400,000 who may be uninsured, those with Medicaid coverage who may have limited access to health benefits and providers, and those with private coverage who, because of their health problems, are paying unusually high premiums to maintain their coverage. Dropping the waiting period would also be of great benefit to cash-strapped states, which are currently experiencing the most serious budget problems they have faced in decades (National Conference of State Legislatures, 2003). Shortfalls in revenues, combined with double-digit increases in Medicaid expenditures, have already caused many states to cut Medicaid benefits, remove people from the Medicaid rolls, or both (Smith et al., 2003).

Employers would also gain from a change in policy, since their payments for COBRA coverage of former employees, and for coverage of disabled spouses and dependents of current employees, could be signifi-

cantly reduced. While Medicare coverage of those in the waiting period would replace some private insurance—one of the concerns that initially prompted the creation of the policy in 1972—paying for this insurance currently imposes significant financial burdens on both SSDI beneficiaries and private employers.

Dropping the waiting period would add approximately $8.7 billion, or 3.4 percent, to Medicare spending at 2002 program levels. At the same time, it would save the state–federal Medicaid program approximately $4.3 billion, since we estimate that about 40 percent of SSDI beneficiaries in the waiting period are currently covered by Medicaid. States would save about $1.8 billion at 2002 program levels, and federal Medicaid expenditures would drop by about $2.5 billion, offsetting nearly 30 percent of the increased Medicare costs in the federal budget as a whole.

As the president and Congress consider ways to fill gaps in Medicare coverage, reconsideration of the two-year Medicare waiting period for SSDI beneficiaries is warranted.

Background

In addition to providing health care for 35 million senior citizens, Medicare covers 6 million disabled adults under age 65. Nearly all of these disabled beneficiaries had to wait more than two years after qualifying as disabled under the SSDI program before they could receive Medicare benefits. To qualify for SSDI, beneficiaries must: 1) have a disability that prevents the person from working and that is expected to last for at least one year, and 2) have worked for a sufficient period under a Social Security-covered job to meet SSDI requirements, or be dependents of workers with sufficient work history to qualify.[1]

Once applicants are approved, their first SSDI benefit is paid five months after their disability is determined to have begun. The waiting period for Medicare begins after the beneficiary has started receiving disability payments and lasts for two years, making the total waiting period 29 months.

The two-year waiting period dates back to 1972, when Medicare coverage was initially expanded to people with disabilities.[2] According to congressional committee reports on the 1972 legislation, the original purposes of the waiting period were to:

> help to keep program costs within reasonable bounds, avoid overlapping private insurance protection, particularly in those cases where a disabled worker may continue his membership in a group insurance plan for a period of time following the onset of his disability, and . . . provide assurance that the protection will be available to those whose disabilities have proven to be severe and long-lasting.[3]

There are two exceptions to the waiting period.[4] As part of the original 1972 legislation, people with end-stage renal disease are eligible for Medicare with only a three-month waiting period.[5] People with amyotrophic lateral sclerosis (ALS, or Lou Gehrig's disease) are eligible without a waiting period, as a result of legislation enacted in 2000 and implemented in July 2001.[6]

In addition, the Ticket to Work and Work Incentives Improvement Act of 1999 authorizes the Social Security Administration to conduct demonstration projects for evaluating a variety of ways to encourage SSDI beneficiaries to return to work, including altering the two-year waiting period.[7]

Profile of SSDI Beneficiaries

At the end of 2000, the number of SSDI beneficiaries totaled nearly 6 million, 85 percent of whom were disabled workers. The rest were disabled widows or widowers and disabled adult children (Social Security Administration, 2001). Based on SSDI information for each state, we estimate that

one of five (21%) of these disabled beneficiaries was in the two-year Medicare waiting period as of January 2002, a total of 1.26 million people (Table 1).

The average age of all SSDI beneficiaries in 2000 was 51, and 57 percent of beneficiaries were male. All initially qualified and remain eligible for SSDI on the basis of a serious disability expected to last at least a year. Thirty-six percent had a mental disorder as their primary diagnosis, 21 percent had diseases of the musculoskeletal system and connective tissue, 10 percent had circulatory system diseases, and 10 percent had diseases of the nervous system and sense organs (Social Security Administration, 2001).

There are no publicly available data that focus specifically on the characteristics of SSDI beneficiaries in the waiting period. However, data on Medicare's under-65 beneficiaries—most of whom became eligible for Medicare coverage only after going through the waiting period—provide a general picture of the demographic characteristics, income, and health conditions of this vulnerable group.

Data from the Medicare Current Beneficiary Survey for 1998 indicate that 45 percent of nonelderly Medicare beneficiaries with disabilities had incomes below the federal poverty line, and 77 percent had incomes below 200 percent of poverty. Fifty-nine percent reported that they were in fair or poor health; of this group, more than 90 percent reported that they suffered from one or more chronic illnesses, including arthritis (52%), hypertension (46%), mental disorder (36%), heart condition (35%), chronic lung disease (26%), cancer (20%), diabetes (19%), and stroke (12%) (Briesacher et al., 2002).

A national survey of Medicare beneficiaries conducted by Mathematica Policy Research, Inc., in 2000 found similar demographic and income characteristics for the under-65 disabled population. The survey also revealed that 32 percent of disabled Medicare beneficiaries had been admitted to the hospital in the past year, and that 68 percent had a condition requiring prescription medication for more than three months and at least two physician visits during the preceding year (Gold and Stevens, 2001).

SSDI Beneficiaries' Access to Health Insurance and Health Care

Although there is no direct information about access to health insurance and health care among SSDI beneficiaries who are waiting for Medicare, recent survey data suggest that those with low incomes and chronic illnesses experience considerable difficulty in obtaining insurance coverage. The Urban Institute's National Survey of America's Families reports that 35 percent of nonelderly, low-income adults in fair or poor health were uninsured in 1999. Twenty-six percent were covered by Medicaid, 28 percent by employer-sponsored plans, and 11 percent by other private insurance or Medicare (Zuckerman et al., 2000).

We also assessed SSDI beneficiaries' likely access to health coverage during the waiting period by examining survey data on supplemental insurance coverage for under-65 disabled Medicare beneficiaries. A Mathematica Policy Research, Inc., survey of Medicare beneficiaries found that, in 2000, 42 percent of the under-65 disabled had coverage only from Medicare, while 27 percent had supplemental coverage through employers or other private insurance, 36 percent through Medicaid, and 11 percent through military and other sources (Gold et al., 2001).[8] It is reasonable to assume that a large percentage of those with coverage only through Medicare had limited access to other sources of coverage before they became eligible.

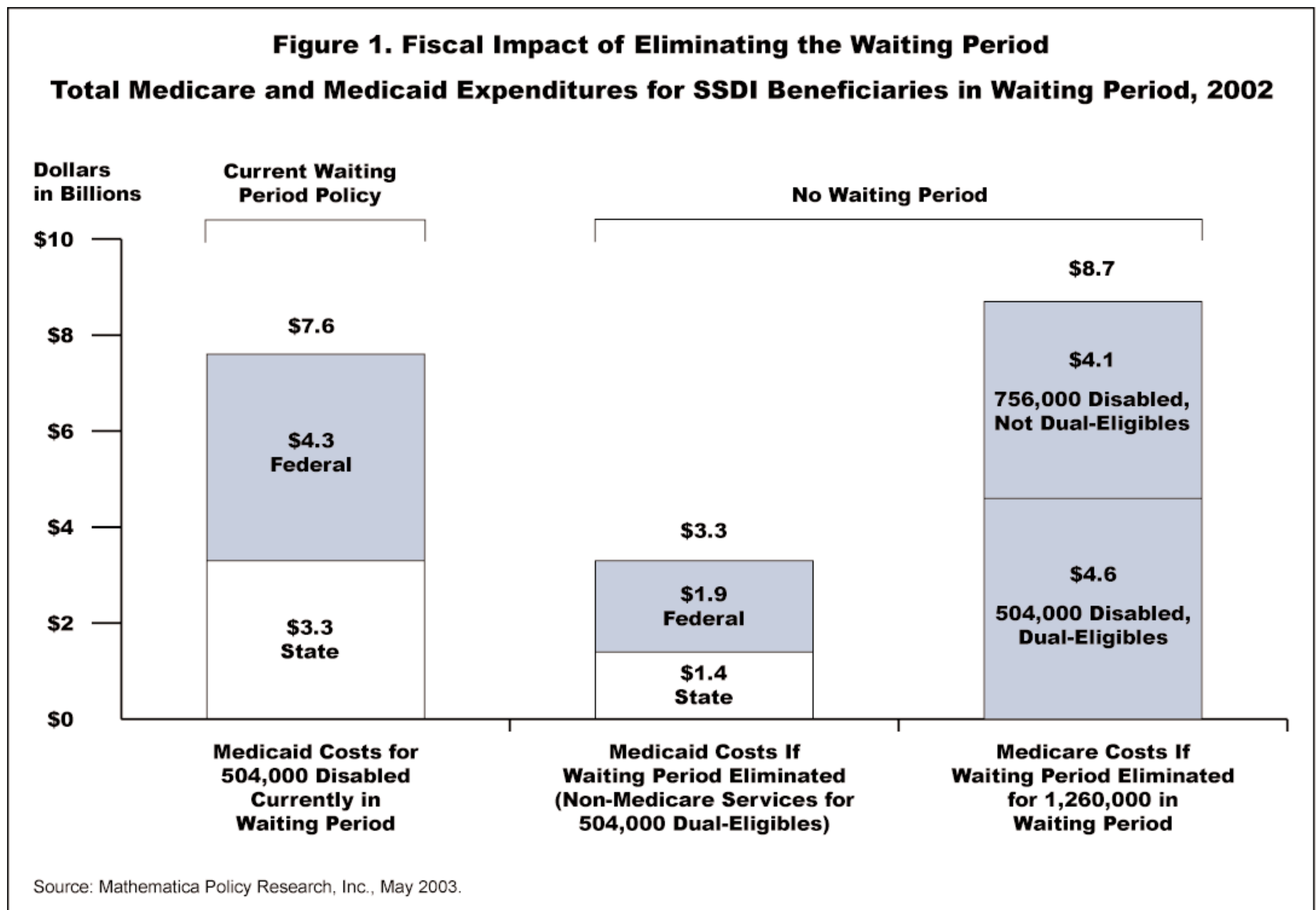
While these surveys do not provide direct evidence of the type and extent of insurance coverage for those in the waiting period, they do suggest that up to one-third—or 400,000 of the estimated 1.26 million disabled waiting for coverage—may lack health insurance, especially during

the later stages of the waiting period when employer-sponsored coverage may be less available and more expensive.[9] Even for those whose incomes and assets are low enough to make them eligible for Medicaid, there may be administrative barriers at the state level that deter some of those who are eligible from enrolling (Barents Group, 1999).

Among all people with chronic conditions (not just those receiving SSDI benefits), those without health insurance report having much less access to needed care than the insured. The Community Tracking Study Household Survey by the Center for Studying Health System Change found that, in 1999, 54 percent of the uninsured with chronic conditions said they delayed getting, or did not get, needed care, compared with 27 percent of those with private insurance (Reed and Tu, 2002).

Impact of the Waiting Period on Medicaid and Medicare

The state–federal Medicaid program provides a partial health insurance safety net for disabled Americans in the waiting period, provided they meet state tests for disability (more stringent than the SSDI test in some states) and meet income and asset limits. Income limits generally range from 74 percent to 100 percent of poverty, while assets are generally limited to $2,000 for individuals and $3,000 for couples (Schneider et al., 2002). Based on data available for selected states, we estimate that approximately 40 percent of the 1.26 million disabled Americans in the Medicare waiting period, or 504,000 adults, are enrolled in Medicaid.[10] We estimate that the cost to states and the federal government for this coverage was $7.6 billion in 2002 (Figure 1).



If the waiting period were eliminated for all SSDI beneficiaries at the start of 2002, we estimate that federal Medicare expenditures would be $8.7 billion higher for that year, about 3.4 percent more than current 2002 Medicare spending. Of the total increased cost, $4.6 billion is for those eligible for both Medicaid and Medicare—the so-called dual eligibles—and $4.1 billion is for those not covered by Medicaid.[11] The $4.6 billion portion would pay for hospital, physician, and other services for disabled adults in the waiting period who are currently on Medicaid.

Because Medicare generally pays higher reimbursement rates than Medicaid, we estimate that the savings to Medicaid would be somewhat less than the additional amounts Medicare would pay for these services—about $4.3 billion rather than $4.6 billion.[12] This $4.3 billion in Medicaid savings would be divided between the states and the federal government, with states on average receiving 43 percent of the savings ($1.8 billion) and the federal government receiving 57 percent ($2.5 billion).[13] Taking into account federal Medicaid savings, the total annual net cost to the federal budget from elimination of the waiting period would be about $6.2 billion at 2002 program levels: $8.7 billion in higher Medicare expenditures minus $2.5 billion in federal Medicaid savings (Figure 1).

These preceding estimates assume that both Medicare and Medicaid would remain financially responsible for the same benefits they are required to provide under current law, with Medicaid paying for nearly all prescription drugs for beneficiaries who are dually eligible for both programs. If Medicare took over full responsibility for prescription drugs for dual eligibles,[14] we estimate that Medicaid savings for those in the waiting period would increase by about $1.3 billion at 2002 program levels, and Medicare costs for Medicaid beneficiaries would increase by the same amount.[15]

Do the Original Reasons for the Waiting Period Still Apply?

When it was instituted in 1972, the waiting period for SSDI beneficiaries was intended to limit Medicare costs, avoid displacing private coverage, and ensure that Medicare coverage was extended only to people whose disabilities were severe and long-lasting. Experience since then suggests that at least some of these concerns may now be less compelling.

Cost. An $8.7 billion increase in Medicare spending at 2002 program levels represents about 3.4 percent of total Medicare spending. While not a trivial amount, especially in light of Medicare's looming financial problems, it is important to recognize that another public program—Medicaid—already pays more than half of those costs. Shifting the costs to Medicare would bring much-needed fiscal relief to states, while the resulting reduction in federal Medicaid costs would offset a portion of the Medicare cost increase in the federal budget as a whole.

Displacement of private coverage. The limited survey evidence discussed above suggests that one-quarter to one-third of individuals in the waiting period have private health insurance coverage. Recent research has suggested that the percentage with private coverage may be higher, and that reducing or eliminating the waiting period could result in some displacement of private insurance and an increase in applications for SSDI (Gruber and Kubik, 2002). Nonetheless, even if some displacement of private coverage does occur, the costs to employers of providing COBRA and other coverage to SSDI beneficiaries in the waiting period are likely to be substantially higher than the premiums those beneficiaries pay, given their extensive health care needs. Medicare coverage could thus provide some welcome relief to employers for those costs, while helping to stabilize private coverage for employees without disabilities.

Likely duration of disabilities. Less than 1 percent of SSDI beneficiaries have their benefits terminated each year (Social Security Administra-

tion, 2001). While there is no separate analysis available for terminations during the waiting period, it is unlikely that the rate is significantly higher during this period. Another 4 percent die during the waiting period.[16] The original concern that disabilities may not be severe and prolonged enough to warrant prompt Medicare coverage does not appear to have been borne out by experience.

Could Medicaid Savings Help States Maintain or Even Expand Health Coverage?

States would realize a total of $1.8 billion in estimated Medicaid savings if the waiting period were eliminated. This represents about 1.6 percent of the $111 billion that states spent on Medicaid in 2002. In the current budgetary environment, states could use these savings to avert benefit or eligibility cutbacks that might otherwise be necessary.[17] As shown in Table 2, $1.8 billion in Medicaid savings would permit states to implement one of the following coverage retention or expansion initiatives at 2002 program levels:

- Cover 2.8 million children in their Medicaid programs. Eighteen million children are enrolled in Medicaid and the State Children's Health Insurance Program (CHIP), and the Urban Institute estimates that another 4.7 million children are eligible for these programs but are uninsured (Covering Kids, 2002).
- Cover 1.7 million nondisabled and nonelderly adults in their Medicaid programs. About 8 million adults in these eligibility categories are now enrolled in Medicaid.
- Cover 300,000 to 340,000 elderly or disabled adults in their Medicaid programs. About 9 million adults in these eligibility categories are now enrolled in Medicaid.
- Cover 4.3 million children in their CHIP programs. About 3.5 million children are now enrolled in CHIP (Smith and Rousseau, 2002).
- Cover 720,000 uninsured adults in state-funded health insurance programs.

Differences in the number of beneficiaries who could be covered by $1.8 billion in state savings are due to differences in the costs per person of different types of enrollees and differences in the portion of those costs paid by state governments.[18]

Conclusion

The two-year waiting period for Medicare imposed on SSDI beneficiaries has persisted for 30 years, with little change and little examination. The original reasons for the creation of the waiting period appear less compelling today. More important, eliminating this restriction would address the insurance needs of a high-risk, high-need population. For those in the waiting period who are uninsured, Medicare coverage would provide financial relief and access to health care services at a time when health care needs are especially pressing and few alternatives exist. For those who are privately insured, Medicare coverage could relieve significant financial burdens on both individuals and employers. For those on Medicaid, Medicare coverage could improve access to care, provide relief for fiscally strapped states, and avert benefit and eligibility cutbacks that might otherwise be required.

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Notes

[1] The work period required for SSDI eligibility varies by age. For those ages 31 to 42, five years of work are required; for those age 62 or older, 10 years of work are required.

[2] Public Law 92-603, October 30, 1972, Section 201(b).

[3] U.S. House of Representatives, Committee on Ways and Means, *Social Security Amendments of 1971,* House Report No. 92-231, May 26, 1971, p. 67. The same language appears in the September 26, 1972, report of the Senate Committee on Finance (Senate Report No. 92-1230, p. 178).

[4] In addition, the two-year waiting period was eased somewhat in 1980 with the elimination of the requirement that the 24 months had to be consecutive.

[5] Public Law 92-603, October 30, 1972, Section 299I. This provision was added in the Senate.

[6] Public Law 106-554, December 21, 2000, Appendix F—H.R. 5661, Section 115.

[7] Public Law 106-170, December 17, 1999, Section 301(a).

[8] In the survey, 31 percent indicated they had no supplemental coverage and 11 percent said they were covered by a Medicare HMO. The total adds to more than 100 percent because beneficiaries may have supplemental coverage from more than one source.

[9] The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) makes employer-sponsored coverage available for 18 months after leaving employment, with monthly premiums set at 102 percent of the employer cost. Those who are disabled are entitled to an additional 11 months of coverage at 150 percent of the employer cost. For details see U.S. Department of Labor, "Health Benefits Under the Consolidated Omnibus Reconciliation Act (COBRA)," July 1999. Some SSDI beneficiaries in the waiting period may also have health insurance through a working spouse's employer-sponsored coverage.

[10] The percentage of Medicaid-insured SSDI beneficiaries in the Medicare waiting period varies from state to state, depending mainly on whether those who are eligible for Supplemental Security Income (SSI) are automatically eligible for Medicaid, whether the state has a "medically needy" program, and what the eligibility criteria are for that program. We based our national average estimate of 40 percent on 2001 Social Security Administration data for nine states, in which the average percentage of SSDI beneficiaries in the waiting period ranged from 29 percent to 47 percent. See separate Appendix for selected state Medicaid enrollment estimates and for details on this study's methods.

[11] The Appendix describes in detail the data sources and methodology for these estimates. Our estimate of increased Medicare costs assumes Medicare would take over responsibility as the primary payer for all services covered by Medicare, even if the SSDI beneficiary had employer-sponsored coverage through COBRA or a spouse. Under current "coordination of benefits" rules, there is one limited circumstance in which employers would continue to be responsible for these costs, even if Medicare took over coverage for those in the waiting period. If the SSDI beneficiary has coverage through a spouse who has insurance from a large group health plan (the employer has 100 or more employees), the group health plan is the primary payer and Medicare is secondary. For details see Health Care Financing Administration, "Medicare and Other Health Benefits: Your Guide to Who Pays First," May 2000, Publication No. HCFA-02179.

[12] The Appendix provides details on this calculation.

[13] The federal share of Medicaid currently ranges from 50 percent in 12 high-income states to 76 percent in Mississippi, with a weighted average of 57 percent across all states. Details do not necessarily add to totals in the text and in Figure 1 due to rounding.

[14] This option is discussed in S. B. Dale and J. M. Verdier, "State Medicaid Prescription Drug Expenditures for Medicare–Medicaid Dual Eligibles," New York: The Commonwealth Fund, April 2003.

[15] If Medicare prescription drug coverage were also extended to SSDI beneficiaries in the waiting period who are not covered by Medicaid, Medicare costs would go up by another $1.9 billion at 2002 program levels.

[16] This estimate is based on tabulations of Social Security Administration data from nine states. See Appendix for details.

[17] For a discussion of current state budget problems and the benefit and eligibility reduction options being considered, see National Governors Association/ National Association of State Budget Officers, 2002; Smith et al., 2003; and Ku et al., 2003.

[18] Estimated total annual costs per person for 1998 were obtained from Health Care Financing Administration, "Medicare and Medicaid Statistical Supplement, 2000," *Health Care Financing Review,* Table 97, p. 320. The costs were inflated to 2002 levels by multiplying each amount by 1.34 percent, the estimated increase in Medicaid and CHIP per-capita expenditures between 1998 and 2002 in Centers for Medicare and Medicaid Services, *National Health Care Expenditures Projections: 2001–2011,* Table 4. The state share of Medicaid and CHIP expenditures in 2002 varies from state to state, averaging 43 percent nationwide for Medicaid and 28 percent for CHIP.

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Table 1

Estimated Number of Medicaid Beneficiaries in Medicare Waiting Period

	Number Starting Waiting Period[a]		Number in Waiting Period as of January 2002[b]
	1999	2000	
Alabama	16,927	16,954	32,272
Alaska	1,041	1,210	2,148
Arizona	11,448	12,772	23,102
Arkansas	9,342	9,381	17,834
California	61,588	59,665	115,447
Colorado	6,993	6,351	12,694
Connecticut	7,539	7,931	14,745
Delaware	2,103	2,194	4,095
District of Columbia	1,180	1,062	2,133
Florida	40,545	38,327	75,071
Georgia	20,939	21,033	39,981
Hawaii	2,348	2,309	4,435
Idaho	2,890	2,915	5,531
Illinois	24,487	24,015	46,187
Indiana	14,552	14,173	27,351
Iowa	6,021	6,502	11,940
Kansas	6,019	6,208	11,650
Kentucky	14,538	15,172	28,314
Louisiana	10,619	11,611	21,199
Maine	4,305	4,356	8,250
Maryland	10,332	11,104	20,436
Massachusetts	15,583	15,840	29,937
Michigan	24,169	25,915	47,748
Minnesota	9,568	9,669	18,325
Mississippi	10,846	10,942	20,755
Missouri	16,718	17,954	33,055
Montana	1,850	1,979	3,651
Nebraska	3,758	3,811	7,211
Nevada	4,398	4,784	8,755
New Hampshire	3,210	3,088	5,996
New Jersey	20,735	18,455	37,272
New Mexico	3,726	3,984	7,350
New York	46,743	45,413	87,746
North Carolina	26,478	25,209	49,201
North Dakota	1,122	1,069	2,085
Ohio	23,609	23,915	45,274
Oklahoma	8,762	8,973	16,898
Oregon	8,491	7,486	15,193
Pennsylvania	30,602	32,848	60,491
Rhode Island	3,132	3,207	6,039
South Carolina	13,045	13,672	25,464
South Dakota	1,460	1,417	2,740
Tennessee	18,849	17,119	34,217
Texas	34,943	33,889	65,537
Utah	2,912	2,964	5,598
Vermont	1,671	1,616	3,130
Virginia	17,727	17,668	33,712
Washington	12,782	13,557	25,107
West Virginia	7,547	7,527	14,358
Wisconsin	10,499	11,155	20,642
Wyoming	966	936	1,811
United States Total	**661,657**	**661,310**	**1,260,114**

[a] The number of disabled workers (drawn from Social Security Administration, *Annual Statistical Supplements,* 2000 and 2001), is adjusted to include the number of disabled spouses and adult disabled children who are also in the waiting period and is reduced to account for those in special groups who do not have to go through the full two-year waiting period.

[b] Assumes 4 percent of new SSDI beneficiaries die each year and 1 percent have their benefits terminated. Assumptions based on tabulations of Social Security Administration data for nine states (Iowa, Minnesota, New Hampshire, New Mexico, North Carolina, Ohio, Utah, Vermont, and Wisconsin). This produces an estimate of the number in the waiting period as of January 1, 2001. We assume that this number remains unchanged between January 2001 and January 2002.

Table 2

Number of Enrollees Who Could Be Covered with $1.8 Billion State-Dollar Medicaid Savings, 2002

Population Group Alternatives (1)	Estimated Total Annual Per-Person Costs (National Average) (2)	State Share of Total Annual Per-Person Costs (National Average) (3)	Number of Enrollees Who Could Be Covered ($1.8 Billion Divided by Column 3) (4)
Medicaid		**(43% state share)**	
Children	$1,497	$644	2.8 million
Adults	$2,514	$1,081	1.7 million
Elderly	$13,724	$5,901	300,000
Disabled	$12,187	$5,240	340,000
CHIP		**(28% state share)**	
Children	$1,497	$419	4.3 million
State-Funded Health Insurance		**(100% state share)**	
Adults	$2,514	$2,514	720,000

Source: Estimates of total annual per-person costs for 1998 were obtained from Health Care Financing Review, *Medicare and Medicaid Statistical Supplement, 2000*, Table 97, p. 320. These per-person costs were inflated to 2002 levels by multiplying each amount by 1.34 percent, the estimated increase in Medicaid and CHIP per-capita expenditures between 1998 and 2002 in CMS *National Health Care Expenditures Projections: 2001–2011*, Table 4. The state share of Medicaid and CHIP expenditures in 2002 varies from state to state, averaging 43 percent nationwide for Medicaid and 28 percent for CHIP.

Methods

We estimated the number of SSDI beneficiaries in the waiting period in each state from Social Security Administration data. We used tabulations of Social Security Administration data from nine states to estimate the percentage of SSDI beneficiaries who were eligible for Medicaid by virtue of receiving Supplemental Security Income benefits. The data from these states and other sources indicate that approximately 40 percent of SSDI beneficiaries in the waiting period are covered by Medicaid, although the percentage could be as low as 30 percent. To estimate the Medicaid expenditures per beneficiary for waiting-period SSDI beneficiaries, we used 1994–95 data from 12 states to calculate the per-person Medicaid expenditures incurred by disabled individuals during the two years prior to their becoming eligible for Medicare, inflated to 2002 levels. We adjusted these costs per beneficiary to take into account the generally higher medical costs for those who die during the waiting period. We also assumed that non-Medicaid beneficiaries in the waiting period have Medicare expenditures that are approximately 60 percent of those covered by Medicaid. Taking into account the different services covered by each program, we estimate that Medicare would cover 57 percent of total expenditures for waiting-period beneficiaries, while Medicaid would cover 43 percent. The Appendix provides further details on the data sources and methodology we used to make these calculations.

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