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July 9, 2015

## **Paul N. Van de Water: Promoting Opportunity for Social Security Disability Insurance Beneficiaries Testimony Before the House Committee on Ways and Means**

Mr. Chairman, Congressman Levin, and members of the committee, I appreciate the invitation to appear before you today.

Promoting opportunity for Social Security Disability Insurance (DI) beneficiaries — especially those trying to return to work — is an appropriately lofty goal. Policymakers should continually seek new and better ways of helping people with serious impairments remain in or rejoin the workforce. But expectations should be realistic and grounded in experience.

Disability Insurance already provides many inducements for beneficiaries to work, and Congress has periodically added more work incentives. DI's eligibility criteria are very stringent, however, and research consistently finds that most beneficiaries have limited work capacity. Further efforts to promote work are therefore likely to have only a small payoff. In fact, some options could increase DI costs, harm vulnerable beneficiaries, make the program harder to administer, or even discourage work rather than encourage it.

It's worth testing some promising changes to DI through carefully designed demonstration projects, but those demonstrations won't yield quick answers. Congress should also consider other ways of rewarding work for people with impairments, such as expanding refundable tax credits for low-wage workers. But Congress should not expect a magic bullet that will simultaneously trim costs, make beneficiaries better off, and avert the need to replenish the DI trust fund in 2016 and beyond. Beneficiaries will face a 20 percent benefit cut if Congress does not act soon to replenish the trust fund.

## Eligibility Criteria Are Stringent

Social Security Disability Insurance assists people who, because of a severe medical impairment, can no longer support themselves by working — a catastrophe that can befall anyone.<sup>1</sup> DI's eligibility criteria are stringent:

- *Insured status.* Applicants for DI benefits must have worked for at least one-fourth of their adult lives and in at least five of the last ten years.
- *Severe impairment.* Applicants must suffer from a severe, medically determinable physical or mental impairment that's expected to last 12 months or result in death. Evidence must come from acceptable medical sources and must consist of clinical facts and findings, not just opinion.
- *Inability to do substantial work.* The impairment must prevent the applicant from performing "substantial gainful activity," currently defined as earning \$1,090 per month. That's equivalent to working less than full-time at the minimum wage, or about 40 percent of median earnings for full-time workers with a high school diploma but no college. The applicant's physical or mental impairment must render him not just unable to do his past work, but unable — considering his age, education, and experience — to do any other kind of work in the national economy.
- *Waiting period.* The impairment must already have lasted for at least five months before the applicant can qualify for DI. Along with the requirement that the impairment must be expected to last another 12 months or result in death, this emphasizes that DI is not for the temporarily disabled.

Ultimately, fewer than 4 in 10 applicants in 2009-2011 were awarded benefits — and there's evidence that the allowance rate has fallen since then. Even if allowed, beneficiaries face a two-year wait for Medicare, and regular follow-up to verify that they're still eligible.

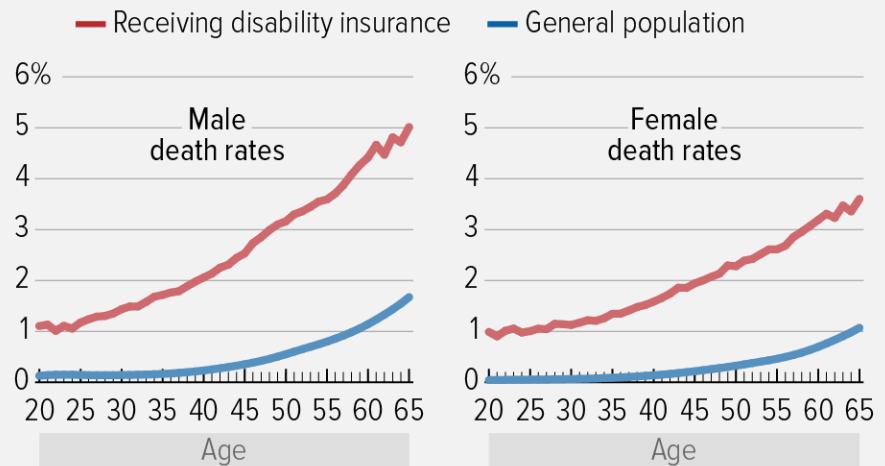
Not surprisingly, the people who qualify for DI are severely impaired, disproportionately older (70 percent are over age 50, and 30 percent are over age 60), and have modest educations. Their death rates far exceed those of the general population. (See Figure 1.) Those characteristics make it unlikely that many will return to significant work.

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<sup>1</sup> Unless otherwise indicated, more information about any of the statements and graphs included here may be found at <http://www.cbpp.org/topics/disability>.

FIGURE 1

## Death Rates Higher for Disability Insurance Recipients Than for General Population



Source: CBPP based on data from the Social Security Administration

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## DI Offers Many Work Incentives

There's a widespread misperception that DI discourages or punishes work. In fact, DI offers many work incentives for those who are able.

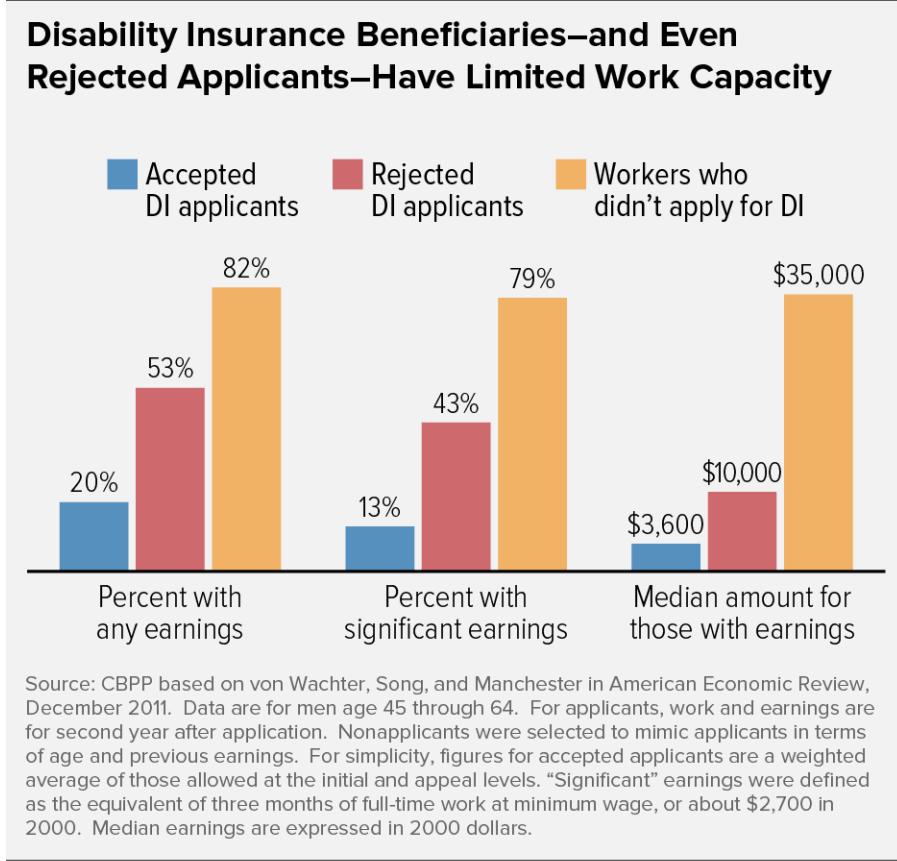
The average DI benefit is only \$1,165 a month — barely above the poverty line — and replaces less than half of the worker's former earnings. Beneficiaries can earn up to \$1,090 a month (called substantial gainful activity, or SGA) indefinitely and still collect benefits; for an average beneficiary, that would nearly double his income. Recipients may earn unlimited amounts for a year (the nine-month trial work period plus a three-month grace period) without jeopardizing their benefits while they test their ability to work. For the next three years, they may automatically return to the DI rolls if their monthly earnings sink below \$1,090. If their benefits are formally terminated at the end of that period, they are generally eligible for expedited reinstatement — without serving another five-month waiting period and with streamlined eligibility criteria — for another five years if their earnings fall below SGA and their original disability persists. Beneficiaries may continue to receive Medicare coverage for up to 7½ years after their cash benefits stop.<sup>2</sup>

<sup>2</sup> For detailed information about DI and SSI work incentives, see Social Security Administration, *2015 Red Book*, <http://www.socialsecurity.gov/redbook/>.

## Most Beneficiaries Can't Do Significant Work

Despite these and other work incentives, most Disability Insurance beneficiaries' impairments prevent them from having significant earnings. Only a minority ever work again after qualifying for DI. Of beneficiaries who were tracked for ten years, 28 percent worked at some point after their DI application was approved, but generally episodically and at low earnings. Only 7 percent had their benefits suspended for even a single month because their earnings exceeded the SGA threshold. Just 4 percent had their benefits terminated because of earnings; and of those, more than one-quarter subsequently returned to the DI rolls. Not surprisingly, those who were younger than 40 when they began to receive DI — a distinct minority of beneficiaries — resumed working at higher rates than did older disabled workers.<sup>3</sup>

FIGURE 2



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It's useful, too, to compare DI beneficiaries with rejected applicants and with people who've never applied for benefits. One careful study found that only one-fifth of beneficiaries aged 45 to 64 — who dominate the DI rolls — have any earnings two years after application, and even fewer

<sup>3</sup> Arif Mamun, Paul O'Leary, David C. Wittenburg, and Jesse Gregory, "Employment Among Social Security Disability Program Beneficiaries, 1996-2007"; Su Liu and David C. Stapleton, "Longitudinal Statistics on Work Activity and Use of Employment Supports for New Social Security Disability Insurance Beneficiaries," *Social Security Bulletin*, Vol. 71, No. 3, 2011.

have significant earnings. (See Figure 2.) Even those who apply for benefits and are rejected — because they don't meet DI's strict eligibility criteria — fare very poorly in the labor market; barely half have any earnings two years after application, and the average amount earned is very low. In contrast, healthy workers of the same age (who don't seek DI benefits) are likely to work and have substantial earnings.

Economic analyses consistently find that, while receipt of DI somewhat reduces employment, its effect on earnings is small. One widely cited study estimates that “marginal” beneficiaries — those who might plausibly have been denied (and who are thus healthier than the average beneficiary) — would earn only \$3,800 to \$4,600 more annually if they were not receiving DI benefits.<sup>4</sup>

Some analysts and policymakers express understandable concern about DI's “cash cliff” — the risk of complete loss of benefits when earnings consistently exceed SGA — but in real life, it seems to make little practical difference. Studies of “parking” (whereby beneficiaries deliberately hold their earnings just below the maximum allowed) and of converted beneficiaries (who, once they start collecting retirement benefits, can earn unlimited amounts) show very limited behavior of this type.<sup>5</sup>

In short, few DI beneficiaries work — and the most reasonable explanation is their severe impairments, not the lack of work incentives.

## Options to Alter DI Work Incentives Have Pluses and Minuses

Although there's little evidence that current rules discourage work, analysts continue to seek ways of improving the program. One widely discussed approach would replace the DI “cliff” with a “ramp,” in which benefits would be reduced gradually by \$1 for each \$2 of earnings once earnings pass a certain threshold.

Applying the \$1-for-\$2 offset starting at the SGA level would create an incentive for beneficiaries to earn more than that amount but would indisputably raise program costs. It would also encourage more people to apply to the program, viewing the combination of cash benefits plus earnings as more appealing than their current job.<sup>6</sup>

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<sup>4</sup> Nicole Maestas, Kathleen J. Mullen, and Alexander Strand, “Does Disability Insurance Receipt Discourage Work? Using Examiner Assignment to Estimate Causal Effects of SSDI Receipt,” *American Economic Review*, 2013, 103(5), <http://eml.berkeley.edu/~saez/course/maestas-mullen-strandAER13.pdf>.

<sup>5</sup> Jody Schimmel, David C. Stapleton, and Jae Song, “How Common is ‘Parking’ Among Social Security Disability Insurance Beneficiaries? Evidence from the 1999 Change in the Earnings Level of Substantial Gainful Activity,” *Social Security Bulletin*, Vol. 71, No. 4, 2011; Nicole Maestas and Na Yin, “The Labor Supply Effects of Disability Insurance Work Disincentives: Evidence from the Automatic Conversion to Retirement Benefits at Full Retirement Age,” Michigan Retirement Research Center, Working Paper 2008-194, September 2008.

<sup>6</sup> Hilary Williamson Hoynes and Robert Moffitt, “Tax Rates and Work Incentives in the Social Security Disability Insurance Program: Current Law and Alternative Reforms,” National Bureau of Economic Research Working Paper No. 6058, June 1997. The Benefit Offset Nationwide Demonstration (BOND) is currently testing an offset of \$1 for every \$2 of earnings above annualized SGA in selected sites nationwide. Evaluations of BOND generally conclude that it has a modest effect on earnings and slightly boosts program costs. See <http://www.mathematica-mpr.com/our-publications-and-findings/projects/benefit-offset-national-demonstration-bond-implementation-and-evaluation>. It is important to realize that, by design, BOND cannot yield answers about one major concern about benefit offset proposals, namely the effect on applications from the partially disabled.

To limit costs or even reduce spending, some proposals would start the benefit offset at a lower threshold of earnings.<sup>7</sup> It's important to recognize that such a change would create a notable work *disincentive* for beneficiaries with earnings between the proposed threshold and SGA. They'd face an extra 50 percent tax rate on their earnings in that range, thereby reducing their income and making work less attractive. That's no small matter. A recent study found that about 11 percent of DI beneficiaries had earnings in 2011 — of those, 70 percent had earnings under \$10,000 a year, and 40 percent had earnings below \$5,000.<sup>8</sup> As a result, it's uncertain whether such proposals would increase or decrease work overall. Only a demonstration project could determine whether the net effect on work would be positive or negative.

In addition, a benefit offset with a threshold below the SGA level would clearly shift income from poorer, sicker people to those with higher earnings. Those who would lose income would likely have more serious impairments and be more vulnerable than those who would gain. In view of these concerns, any proposal that could disadvantage beneficiaries should be thoroughly tested and evaluated before it is implemented.

Benefit offsets would also pose significant administrative challenges to the Social Security Administration (SSA). The agency has a strong record of payment accuracy — over the 2011-2013 period, the accuracy rate for DI was nearly 99 percent.<sup>9</sup> A common reason for overpayments is delays in processing reports of earnings by DI beneficiaries. The challenge is even more acute in Supplemental Security Income (SSI), a needs-tested program that generally reduces benefits by \$1 for every \$2 of earnings above \$85 a month; there, payment accuracy averaged about 91 percent, and unavoidable delays in processing earnings reports were a significant reason. Adding a benefit offset to DI would inevitably reduce its payment accuracy rate.

Keeping up with earnings reports is a matter not only of program integrity but also of beneficiaries' protection. In a worst case, a beneficiary reports his earnings accurately and promptly to SSA, but lags in processing mean that his benefit is reduced or withheld months later — when his job may have ended and he desperately needs his benefit to cover living expenses. If Congress

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<sup>7</sup> A proposal from the Consortium for Citizens with Disabilities (CCD) would set the \$1-for-\$2 threshold at the same level that triggers a trial work period in DI (currently \$780), and make numerous other changes in the program's work incentives and their administration, including eliminating the trial work period, eliminating the extended period of eligibility (EPE) in return for a *permanent* right to return to the program when earnings fall, and raising and indexing the income disregards in SSI. See [http://www.c-c-d.org/fichiers/CCD\\_Final\\_Benefit\\_Offset\\_Proposal.pdf](http://www.c-c-d.org/fichiers/CCD_Final_Benefit_Offset_Proposal.pdf).

<sup>8</sup> David R. Mann, Arif Mamun, and Jeffrey Hemmeter, "Employment, Earnings, and Primary Impairments Among Beneficiaries of Social Security Disability Programs," *Social Security Bulletin*, Vol. 75, No. 2, 2015, <http://www.ssa.gov/policy/docs/ssb/v75n2/v75n2p19.html>, Table 2. Data are for DI-only recipients (that is, those who do not concurrently receive SSI benefits), because SSI (rather than DI) work incentives are generally more relevant for the latter group.

<sup>9</sup> Average of 2011-2013 data, from SSA's *FY 2014 Agency Financial Report*, pp. 161-205, <http://www.socialsecurity.gov/finance/2014/Improper%20Payments.pdf>. (Fiscal year 2015 edition is not yet available.) Specifically, the rate of overpayments averaged 0.94 percent of DI outlays; underpayments averaged 0.29 percent; so their sum — so-called improper payments — was 1.23 percent. It's important to recognize that the agency has an excellent record of recovering overpayments using various tools — reducing or withholding checks, garnishing tax refunds, reporting to credit bureaus, and so forth — but it's obviously best to avoid overpayments in the first place.

added a benefit offset to DI, it would become even more critical to provide SSA the resources to process earnings reports promptly and efficiently.

## Demonstration Projects Won't Yield Quick Answers

The Social Security Administration has undertaken many demonstration projects over the years to test new ways to encourage DI beneficiaries to return to work, but they have consistently shown limited results or proved not cost-effective. (See Appendix Table.) “This large body of research has demonstrated the enormous difficulty of helping and encouraging people with chronic health conditions and disabilities to work and earn enough to become self-sufficient,” concludes a recent assessment. None of the demonstrations has been found to have “the potential to lead to substantial caseload reductions.”<sup>10</sup>

Promising new ways to promote opportunity for DI beneficiaries deserve to be carefully tested. For example, SSA could test options such as the Work Incentive Simplification Pilot, which would replace DI’s current rules related to return to work with a simplified process that would be easier for beneficiaries to understand and for SSA to administer.<sup>11</sup> SSA is also developing a demonstration that would provide early intervention services to workers with mental illness under the age of 50 who are on a path toward receiving DI or SSI benefits.<sup>12</sup>

Designing and conducting demonstration projects is challenging work that can’t be done quickly. Demonstrations involve site selection, training of staff, careful division between an experimental and control group, and attention to criteria like sample size. Demonstrations that made some participants worse off than under current law — by giving up benefits or protections that they now qualify for — would raise additional legal and ethical issues. Demonstrations have to be run for long enough to establish validity; people respond differently to temporary and permanent incentives. And participants need to be tracked for a long time to verify whether the results are durable; for example, an early intervention that delays but doesn’t prevent people from qualifying for DI may not actually save money, once the cost of intervention is considered. In short, there’s no reason to think that demonstration projects will yield useful information soon, and they certainly can’t make a significant dent in DI’s need for additional revenue by late 2016.

## Exploring Other Options

Other programs besides Social Security Disability Insurance can also promote opportunity for workers with disabilities. Access to affordable health coverage may already be dampening applications to disability programs. And extending provisions of the Earned Income Tax Credit (EITC) and Child Tax Credit that are now slated to expire after 2017 — and improving the EITC for childless workers, a proposal that is backed by both Chairman Ryan and President Obama —

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<sup>10</sup> Gina Livermore, David Wittenburg, and David Neumark, “Finding alternatives to disability benefit receipt,” *IZA Journal of Labor Policy*, 2014, 3:14, <http://www.izajlp.com/content/pdf/2193-9004-3-14.pdf>.

<sup>11</sup> David Wittenburg, David R. Mann, and David C. Stapleton, *Work Incentive Simplification Project (WISP): Recommendations of the Technical Advisory Panel Regarding the Evaluation Design*, Mathematica Policy Research, April 25, 2012, <http://www.ssa.gov/disabilityresearch/documents/WISP-final%20report-5-1-12COMPLETE.pdf>.

<sup>12</sup> Social Security Administration, *FY2016 Congressional Budget Justification*, pp. 83-8, <http://www.ssa.gov/budget/FY16Files/2016FCJ.pdf>.

could boost the rewards from work for hundreds of thousands of workers with disabilities. First and foremost, however, Congress should take steps to assure sufficient financing for Disability Insurance and thereby avert a 20 percent cut in benefits.

APPENDIX TABLE

## Work-Incentive Demonstrations Have Shown Limited Results

Demonstration	Years	Description	Effects
<b>Benefit Offset National Demonstration (BOND)</b>	2011-2017	Testing a \$1-for-\$2 benefit offset for earnings above SGA level, with additional work supports for “Phase 2” beneficiaries	<ul style="list-style-type: none"> <li>Small effects on earnings (Phase 2 only)</li> <li>Increased benefit payments</li> <li>Ongoing experiment</li> </ul>
<b>Accelerated Benefits Demonstration</b>	2007-2010	Provided health care to SSDI beneficiaries during 24-month waiting period for Medicare, with additional medical and work supports for “AB Plus” beneficiaries	<ul style="list-style-type: none"> <li>Improved health outcomes</li> <li>No effect on employment</li> <li>For AB Plus, greater use of return-to-work services</li> </ul>
<b>Mental Health Treatment Study</b>	2006-2010	Provided medical and employment supports to beneficiaries with schizophrenia and other affective disorders	<ul style="list-style-type: none"> <li>Improved employment and earnings</li> <li>Improved mental health status</li> <li>No impact on earnings above SGA</li> <li>No impact on benefits</li> </ul>
<b>Benefit Offset Pilot</b>	2005-2014	Replaced “cash cliff” with a \$1-for-\$2 offset for earnings above SGA level, with additional work supports	<ul style="list-style-type: none"> <li>Small increase in earnings above SGA</li> <li>No effect on mean earnings</li> <li>No effect on employment</li> </ul>
<b>Youth Transition Demonstration</b>	2003-2012	Waived SSI income and asset rules, provided a variety of state-designed employment and education supports for young SSDI and SSI beneficiaries	<ul style="list-style-type: none"> <li>Little to no effect on employment and earnings</li> <li>Evaluation ongoing</li> </ul>
<b>Ticket to Work</b>	1999-present	Provides vocational rehabilitation and work support from employment networks (Note: A change in law, not a demonstration)	<ul style="list-style-type: none"> <li>Increased use of return-to-work services</li> <li>Little effect on employment</li> </ul>

## APPENDIX TABLE

**Work-Incentive Demonstrations Have Shown Limited Results**

Demonstration	Years	Description	Effects
<b>State Partnership Initiative</b>	1999-2004	Tested variety of state-designed interventions, including Medicaid waivers and employment services for SSDI and SSI beneficiaries	<ul style="list-style-type: none"> <li>• Little effect on benefits</li> <li>• Small and mixed effects on employment</li> <li>• No effect – or negative effect – on earnings</li> </ul>
<b>Project NetWork</b>	1992-1994	Offered intensive outreach, work-incentive waivers, and case management services to SSDI/SSI applicants and recipients	<ul style="list-style-type: none"> <li>• Small short-term effect on earnings</li> <li>• No effect on benefits</li> </ul>

Notes: SSDI=Social Security Disability Insurance, SSI=Supplemental Security Income, SGA=Substantial Gainful Activity (varies by year, currently defined as earnings that exceed \$1,090 a month in 2015).

Sources: CBPP analysis based on Scott D. Szymendera and William R. Morton, "Social Security Disability Insurance (SSDI) Demonstration Projects," CRS Reports RL33585, April 10, 2014 and RL33585, July 20, 2011; Gina Livermore, et al., "Finding Alternatives to Disability Benefit Receipt," *IZA Journal of Labor Policy*, 3:14 (2014); Livermore, et al., "Executive Summary of the Seventh Ticket to Work Evaluation Report," Final Report, July 2013; Government Accountability Office, "Modernizing SSA Disability Programs: Progress Made, but Key Efforts Warrant More Management Focus," GAO-12-420, July 2012; Robert Kornfeld and Kalman Rupp, "The Net Effects of the Project NetWork Return-to-Work Case Management Experiment on Participant Earnings, Benefit Receipt, and Other Outcomes," *Social Security Bulletin*, 63:1 (2000).