The Social Security Disability Insurance (SSDI) Program

A Proposed Policy Change
to Make Work "Worth It" and
Save the Social Security Trust Fund

March 17, 2009

Summary

Advocates, disability policy analysts and researchers have long identified the "cash cliff" built into the Social Security Disability Insurance (SSDI) program as a substantial disincentive to work. The "cash cliff" describes the SSDI rules whereby a beneficiary may earn a single dollar above an SSA established maximum amount—an amount below the poverty line—and that dollar could easily result in a complete loss of the SSDI cash benefit. Stakeholders argue that the specter of a precipitous loss of benefits and possible detachment from the SSDI program forces beneficiaries to limit their earnings rather than risk total loss of support. A gradual reduction of benefits as the beneficiary increases their earnings would be clearly logical as an alternative to the current cash cliff policy of SSDI. Moreover such a policy would be consistent with the treatment of employment income in the Supplemental Security Income (SSI) disability program.

Until very recently there have been no research data to support the assumption that beneficiaries would increase their employment if an offset were available. However, in 2008, data from several state pilots established by the Social Security Administration (SSA) have begun to provide clear evidence that a gradual offset of SSDI benefits would result in increased earnings.

Originally, the state pilots were established as an implementation test, to inform a much larger national demonstration planned to start in 2009 and be completed in 2015. However, the Pilots were each implemented with a rigorous experimental research design and have each begun to produce outcome data. To date, the results from the states appear to support a gradual offset as policy for the SSDI program.

Based on the experiences and results from these states, a policy change could accomplish these goals:

- *Increase the employment levels of SSDI beneficiaries.*
- *Increase the economic well-being and self-sufficiency of SSDI beneficiaries.*
- *Generate cost savings or at minimum be cost neutral to the Trust Fund.*
- *Simplify the administration of the SSDI program.*

To accomplish these goals the following broad policy changes are proposed:

- *A $1 reduction (offset) of SSDI cash benefits for every $2 in employment earnings.*
- *Elimination of the "Trial Work Period" and "Extended Period of Eligibility".*
- *Continued attachment to the SSDI program for beneficiaries.*

The proposed policy changes would bring the work rules of the SSDI program into alignment with other broad state and federal program initiatives launched under the umbrella of the 1999 Ticket to Work, Work Incentives Improvement Act. Most importantly, this change will provide beneficiaries with significant disabilities the opportunity to try to return to work without risking everything in the process

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A Good Program In Need of Redesign

Overview of the SSDI Program and the Work Rules

Social Security Disability Insurance (SSDI) is a valuable safety net for people who are no longer able to work consistently, if at all, because of a disability. SSDI beneficiaries receive a monthly cash benefit based on their employment earnings history, plus Medicare health coverage. Over 7.4 million working age adults currently receive SSDI benefits.[1]

The rules that govern beneficiary employment and earnings for the SSDI program are based on the outdated notion that individuals are either totally and permanently too disabled to work or they are not. This static view of disability may be summarized as follows:

- An SSDI beneficiary receives a nine-month Trial Work Period (TWP). During this period the beneficiary can earn any amount and receive 100% of their benefit. This rule supposes that substantial employment and earnings in an isolated month or series of months is predictive of a regained capacity to sustain work more or less permanently. It ignores the episodic nature of disability.
- On completion of the Trial Work Period some beneficiaries may enter an Extended Period of Eligibility (EPE) for three years. During this period, the beneficiary loses 100% of their SSDI cash benefit if they earn over $980 per month. The benefit is reinstated for any month in which the beneficiary's earnings drop below $980 per month.
- On completion of the Extended Period of Eligibility the beneficiary must keep his/her earnings below $980 per month or be severed from SSDI altogether.

Why is the return to work rate on the SSDI Program so low?

Only half of one percent of SSDI beneficiaries work themselves off benefits.[2] This is essentially zero. More beneficiaries leave the rolls due to death than employment. This is despite substantial federal and state initiatives designed to increase work participation such as the Ticket to Work and the Work Incentives Planning and Assistance (WIPA) programs.

Many beneficiaries on SSDI feel the program traps them in ongoing poverty and dependence. A significant number of people on SSDI want to return to work on a full- or part-time basis, to

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[1] December 2008 figure for SSDI Disabled Workers from http://www.ssa.gov/OACT/ProgData/icp.html
[2] Annual Statistical Report on the Social Security Disability Insurance Program, 2007.

increase their income, to provide for their economic security and to more fully take part in the life of their communities. However, the design of the SSDI program—with its "cash cliff"—discourages work. To many SSDI beneficiaries, the rules of the program seem to reward a person for not working or limiting their work, while punishing those who try to work more and reduce their dependence on the system.

The following is an example of how the current SSDI program work rules apply and why beneficiaries decide to "park" their earnings:[3]

Joe's Job	Joe's Earnings	Joe's SSDI Benefit	Joe's Total Income
Joe takes a part time job earning $13 per hour. He works **15** hours per week.	Joe's total monthly earnings are **$838**.	Because Joe is earning below $980 per month he receives his whole SSDI check of **$900**.	Earnings of $838 plus SSDI income of $900 equals a total of **$1,738** per month.
Joe's boss wants him to work **20** hours per week at $13 per hour.	Joe's total monthly earnings are **$1,118**.	Because Joe is earning above $980 per month he ***loses*** his whole SSDI check, so his benefit is **$0**.	Earnings of $1,118 plus SSDI income of zero equals a total of **$1,118**.

As this example illustrates, ***Joe's total income is actually reduced by $620*** if he works an extra five hours per week. In fact, in Joe's case he would have to work 31 hours per week just to equal the income he would have by only working 15 hours per week and keeping his SSDI benefit. Furthermore, if Joe continues to work at the higher level he risks losing eligibility for the program. Because Joe has a disability that is unstable (multiple sclerosis) he cannot predict if he will be able to sustain work over the longer term. Losing the benefit would be an unreasonable risk for Joe.

If it is such a good idea, why has a gradual offset not been implemented?

Policymakers and advocates have long advocated for a gradual earnings offset for the SSDI program. The sister program to the SSDI program, the Supplemental Security Income (SSI) program, has had an earnings offset since its inception in the 1970s.

A 1994 SSA Actuarial Report summarizes the arguments against the implementation of a $1 for $2 offset for the SSDI program.[4] The SSA Actuaries argued that:

- A $1 for $2 offset could be interpreted as a change in the definition of disability. As a result, workers with significant disabilities who otherwise would keep working may be induced to apply. This concept is sometimes referred to as "induced entry."
- Relatively few SSDI beneficiaries (estimated at 25,000 nationally) would take advantage of an offset, so there would be limited savings. Most stakeholders are more concerned with economic security and quality of living than savings to the Trust Fund.
- If an offset was in place some beneficiaries who might otherwise have worked and left the SSDI roles would continue to receive benefits. This is termed "reduced exit". The Actuaries argued the net result of a $1 for $2 offset would be an increase in cost to the

[3] This example is based on the 2009 figures for Substantial Gainful Activity, the threshold at which an SSDI payment may be ceased.

[4] Social Security Administration: Office of the Actuary, Cost Estimate Regarding SSDI $1 for $2 Gradual Reduction Proposal (June 13, 1994).

SSDI program. *However, it is important to note that the SSA Actuaries had very little real data to work with.* The SSA Actuaries based their calculations on assumptions only. And since current experience is that virtually no one leaves SSDI due to work, the potential impact of "reduced exit" on the Trust Fund based on an offset feature is questionable.

The Four State Benefit Offset Pilots

In 2005, SSA initiated four Benefit Offset Pilots in Connecticut, Utah, Vermont and Wisconsin. The Pilots were housed within state government agencies in close collaboration with community programs.[5] The original purpose of the pilots was to provide information to SSA in preparation for a much larger national demonstration (The Benefit Offset National Demonstration or BOND). However, the pilots were established using a rigorous experimental research design intended to produce solid impact evaluations.

Between August 2005 and October 2006, the Pilots enrolled 1,795 SSDI beneficiaries randomly assigned to either the Offset Pilot Test Rules (test group) or the standard SSDI Rules (control group). The Pilots tested the following Offset Pilot rules:

- A standard nine-month Trial Work Period.
- A 72-month Extended Period of Eligibility (doubling the standard 36-month EPE).
- A $1 for $2 offset starting at SGA ($980 per month in 2009) during the EPE.
- A return to the standard SSDI rules at the end of the 72-month EPE.

In addition, all four states provided ongoing access to counseling on benefits and work incentives for both the test and control groups. Providing expert benefits counseling for both groups ensured that all participants were fully informed about the impact of work on their benefits.

What do the Benefit Offset Pilots tell us about actual beneficiary behavior?

In 2008, the four Pilot states started to produce preliminary outcome data on the impact of the $1 for $2 for all participants, albeit over a limited time period.[6] The following is a summary of some of the findings:

- In Connecticut and Vermont, the rate of beneficiaries in the test group who earned above the SGA threshold increased by statistically significant margins of 17.5 percentage points and 5 percentage points, respectively, compared to controls.[7]
- In Utah, the same analyses conducted by the other states did not reveal significant differences for the test group at five quarters after enrollment because early project enrollees took longer to increase their earnings. However, SGA comparisons for the five quarters before enrollment with the most recent available quarters (the first and second quarters of 2008) were statistically significant, with the increase in people earning

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[5] The lead agencies for the pilots were Wisconsin Department of Health and Family Services, the Utah Department of Health, the Connecticut Bureau of Rehabilitation Services and the Vermont Division of Vocational Rehabilitation.

[6] It is important to note that these are preliminary findings. It would be expected that the impact of an Offset must be measured over time because beneficiaries cannot be expected to change their employment circumstances immediately.

[7] Connecticut focused recruitment on individuals with earnings whereas Vermont and Utah enrolled both earners and non-earners. This probably accounts for the large difference in effect size.

above SGA being 7.3 percentage points higher for the test group than the control group (see Fig. 2). These analyses using recent calendar quarters recognize the time needed for the project to become effective.

- Wisconsin has not yet demonstrated statistically significant differences between the test and control groups.

Figure 1.
Connecticut Benefit Offset Pilot
Rate of Earnings Over SGA in Full Sample

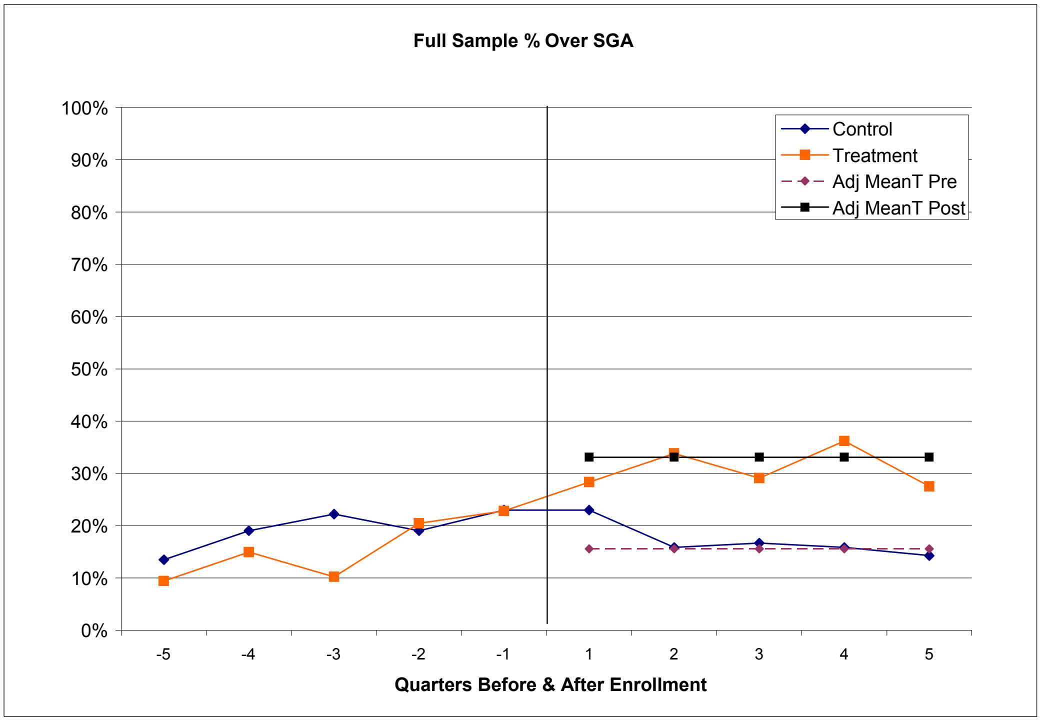
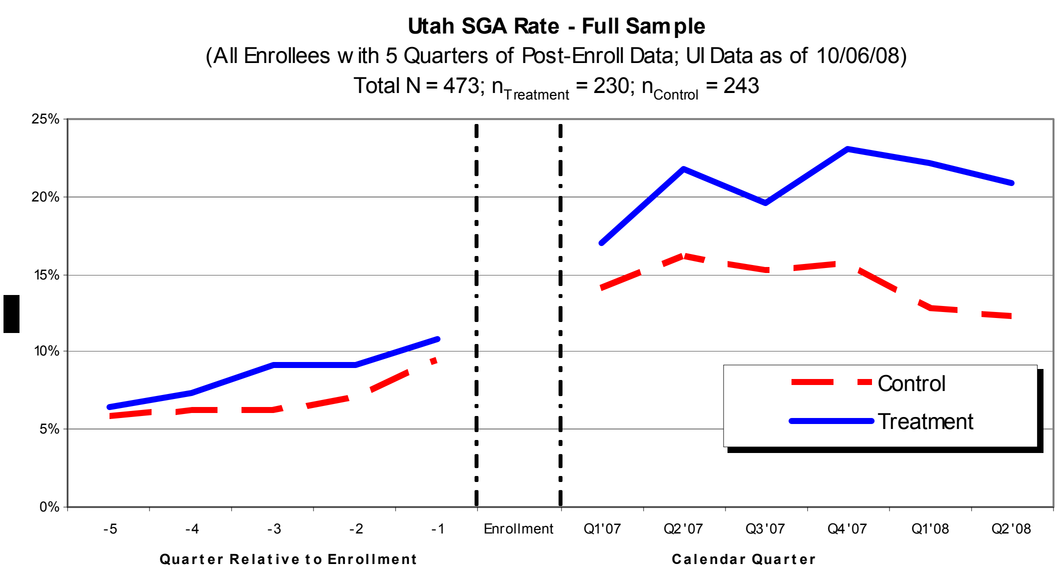


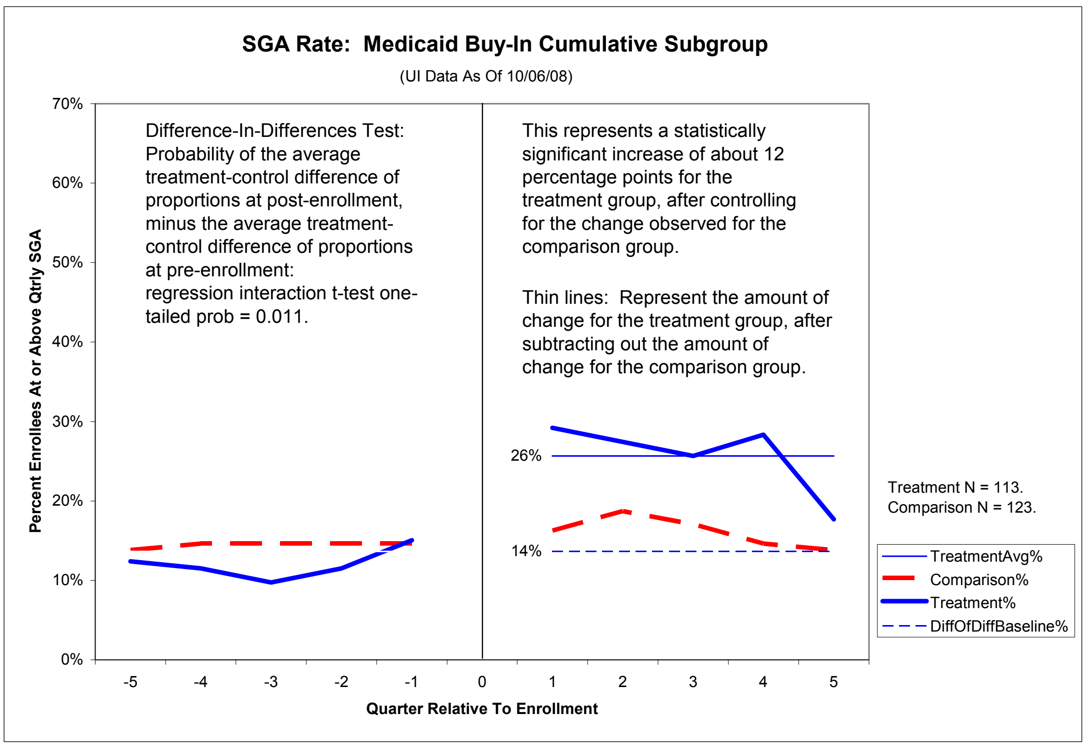
Figure 2.
Utah Benefit Offset Pilot
Rate of Earnings Over SGA comparing five quarters of wages before enrollment with five calendar quarters (1st quarter 2007 through 2nd quarter 2008).



In Vermont, Connecticut the impact of the offset was stronger within key subgroups. These were as follows:

- In Connecticut, among beneficiaries in the test group who were already working at enrollment, the rate of individuals working above SGA increased by a statistically significant margin of 26.5 percentage points, compared to controls.
- In Connecticut and Vermont, among test group beneficiaries who had also enrolled in the state's Medicaid Buy-In,[8] the rate of individuals working above SGA increased by statistically significant margins of 19.1 percentage points and 12 percentage points, respectively, compared to controls.
- In Vermont, among test group beneficiaries who were already in their Extended Period of Eligibility at enrollment,[9] the rate of individuals working above SGA increased by a statistically significant margin of 12 percentage points, compared to controls.

Figure 3.
Vermont Benefit Offset Pilot
Rate of Earnings Over SGA in Sample of Medicaid Buy-In Participants



- In Utah, the subgroup of beneficiaries in the test group who were already working at enrollment showed an increase in wages above SGA that was 13.4 percentage points more than for the control group when comparing five quarters of pre-enrollment wages with the first two quarters of 2008. Further, the impact for later enrollees (2nd, 3rd, & 4th quarters of 2006) was more apparent because the control group for these later enrollees had a much lower increase in earnings above SGA (1.1 percentage points) than did the control group for early enrollees (10.1 percentage points) when comparing the five quarter before enrollment with the first two quarters of 2008.

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[8] The Medicaid Buy-In is a work incentive that allows SSDI beneficiaries to "buy into" Medicaid coverage if they return to work.
[9] It would be during the Extended Period of Eligibility that the cash cliff applies, and where one might therefore expect to observe the most significant impact on earnings above SGA.

Process Findings

A major process finding across all four states was the importance of counseling on benefits and work incentives. Fear and lack of information about the SSDI work rules are in themselves, a major barrier to employment. All four pilot sites found that beneficiaries relied heavily on benefits counseling in their decision making about whether to work.

Also, it is important to note that the offset was implemented in the four states in far from ideal circumstances. SSA had to administer the offset manually. The combination of existing work rules (the Trial Work Period, EPE etc.) combined with an offset resulted in a tremendous number of administrative errors. Almost all beneficiaries who used the offset experienced payment errors including inappropriate ceasing of benefits, underpayments, overpayments and inaccurate notices. The benefits counselors provided critical support to beneficiaries in identifying and resolving these problems for the test groups.

In addition to the Offset processing issues, there were limitations built into the Offset tested by the states that may have suppressed increased work activity. These were as follows:

- *The exclusion of some beneficiaries with established work histories:* SSA excluded from the study individuals who were 72 or months beyond their extended period of eligibility. This provision therefore automatically excluded a sub-group of beneficiaries with established work histories. This is a sub-group that one would expect to be likely to use an Offset if available. This exclusion therefore potentially limited the effect of the Offset rules.
- *The time limited nature of the Offset:* The Pilot Offset rules only applied during the 72-month Extended Period of Eligibility. Once that 72-month period was over, beneficiaries returned to the existing program rules including the "cash cliff". If a beneficiary was enrolled in their 60th month of their Extended Period of Eligibility, the Offset would only apply for a further twelve months. Why would a beneficiary take a higher paying job if they knew the Offset would end for them in the near future? Therefore, it is possible the time-limited nature of the Offset may have affected beneficiary decisions about employment, potentially limiting the effect of the Offset rules.

Despite the problems with the application of the Offset, the exclusion of some beneficiaries with work histories and the time-limited nature of the Offset, three of the four sites still found beneficiaries in the Offset increased their earnings above SGA over the comparison group. *This suggests implementing an Offset, even under less than optimal circumstances, has a positive impact on earnings.*

What do the preliminary data from the Pilots tell us?

1. **In Connecticut, Utah and Vermont, the current SSDI work rules appear to suppress beneficiary earnings from exceeding SGA.** The control groups in the three states—subject to the current SSDI cash cliff—appeared more likely to keep their earnings below SGA. In Utah this was particularly true for later project enrollees (last three of six quarters of enrollment ending in the fourth quarter of 2006).
2. **In Connecticut, Utah and Vermont, the presence of an offset increases the likelihood that beneficiaries will earn above the SGA threshold.**

3. **The effect of the offset was greater for beneficiaries who were already employed at enrollment (CT & UT) or in their Extended Period of Eligibility (VT).** These are the individuals with the most to lose under the current rules and therefore the most likely to take advantage of an offset.
4. **In Vermont and Connecticut, the effect of the offset was increased when beneficiaries were enrolled in another work incentive program, the Medicaid Buy-In.**

Policy Implications for the SSDI Program

Current SSDI rules act as work disincentives and suppress beneficiary earnings. As a result:

- Beneficiaries artificially keep their earnings below SGA.
- The cost to the Trust Fund is greater because SSA does not generate savings as a result of increased work.
- Revenue to the Trust Fund is decreased because beneficiaries are suppressing their earnings and paying less in Social Security taxes.
- Beneficiaries are more likely to live in poverty and remain dependent on state and federal benefits programs.

Proposed Alternate Policy

As the current policy appears to actually suppress work activity, what is the alternative? A logical choice is a gradual rather than precipitous decrease in cash benefits as earnings rise, an approach that creates an incentive for beneficiaries to work and earn more. Such an approach would also be much more likely to result in savings and increased revenue to the Trust Fund and public systems through FICA and payroll taxes.

Implement a graduated $1 for $2 offset of earnings to SSDI benefits: Gradually decreasing benefits as earnings increase makes employment attractive and ensures that beneficiaries are always better off the more they work. This would also make the SSDI program more consistent with the SSI program.

Starting point for the offset: The four State Pilots tested an offset starting at SGA. However, policy makers may want to consider alternative points for the starting point for an offset. For example, starting an offset at 50% of SGA ($490 per month in 2009) would be more likely to generate savings to the Trust Fund while also providing a clear incentive for increased employment. Policy makers should also consider making the starting point for an offset the same for both SSDI and SSI. This would make the work incentives easier to understand and possibly easier to administer.

Eliminate the Trial Work Period and Extended Period of Eligibility: The TWP and EPE add tremendous administrative burden to SSA. The TWP in particular causes a significant number of payment errors because of the administrative challenges in verifying if a Trial Work Month was actually used. The TWP and EPE also cause considerable confusion for beneficiaries. In addition, this approach would result in greater savings to the Trust Fund because under the current rules SSA pays 100% of the benefit during the TWP.

Continued attachment to the SSDI program if the beneficiary continues to be medically disabled: For many SSDI beneficiaries a major concern about returning to work is that their disability is unstable and unpredictable. Beneficiaries with schizophrenia or multiple sclerosis, for example, may have periods of time where they can work forty hours a week and other periods of time where they may not be able to work at all. The cash cliff presents a particular barrier for these individuals because they risk everything if their disabling condition unexpectedly deteriorates. Continued attachment would allow beneficiaries to retain eligibility for SSDI, even if they zero out their SSDI cash benefit as a result of earnings.

Expand the Work Incentives Planning and Assistance (WIPA) grants and other benefits planning funding to states to ensure beneficiaries have access to benefits counseling: The consistent experience of the four states was the value of benefits counseling in promoting the use of work incentives such as an SSDI offset, and in providing a supportive and encouraging environment for beneficiaries to make the decision to return to work. Work Incentives benefits counseling is a service that assists the beneficiary to understand the interaction of employment earnings and savings on "needs-based" and income-sensitive entitlements. The comprehensive counseling provided by qualified practitioners in the state pilots, and increasingly nationwide, considers the nature of the beneficiary's disability (e.g. static, progressive, episodic), desired employment goal with current and projected employment income, ongoing access to health and long-term care benefits and need for continued attachment to their entitlement programs. Benefits counseling has proven critical to beneficiary decisionmaking related to job acquisition and career and economic advancement.

The Fiscal Impact of the Proposed Offset on the Trust Fund

Any significant policy change to the SSDI program must be evaluated in terms of potential cost. The following analysis suggests that the proposed policy change would be at least cost-neutral and potentially provide cost savings to the Trust Fund.

Proposed Policy Change	Potential Savings to the Trust Fund	Potential Increased Costs to the Trust Fund
Implementation $1 for $2 Benefit Offset. Consideration of starting the Offset at less than SGA.	¤ Increased rates of work participation resulting from removal of the "cash cliff". ¤ Increased rates of earnings will result in higher Social Security Taxes paid by beneficiaries. ¤ Additional savings resulting from an Offset at less than SGA ($980 per month). Under current rules SSA does not generate any savings for beneficiaries who earn less than $980 per month. Starting an Offset at any point lower than SGA would result in increased savings.	¤ Decrease in beneficiaries ceasing SSDI benefits as a result of work above SGA. Currently less than one half of one percent of beneficiaries cease their benefits as a result of work. ¤ Increase in individual SSDI benefits for beneficiaries who pay higher Social Security Taxes as a result of working more.
Elimination of Trial Work Period and Extended Period of Eligibility	¤ Additional savings resulting from the application of the Offset during the first nine months of employment. Under current rules SSDI beneficiaries can earn any amount during the Trial Work Period without any reduction in benefits.	¤ None
Continued attachment to SSDI while medically disabled.	¤ None	¤ No additional costs beyond the impact of the Offset.

As the above table illustrates, under current rules the only circumstance in which there are cost savings to the Trust Fund is when beneficiaries work themselves completely off benefits. Historically, this occurs with less than one half of one percent of beneficiaries. *A beneficiary must work at least nine months above SGA ($980) per month before there is a single dollar savings to the Trust Fund.*

In contrast, the proposed policy will result in savings to the Trust Fund at the point a beneficiary earns over the starting point for an offset. Beneficiaries' SSDI checks will be reduced by $1 for every $2 dollars they earn above the offset threshold. We believe this approach is far more likely to result in cost savings to the Trust Fund. *At the same time, this approach will offer beneficiaries a clear incentive to work, while recognizing their need to feel secure that they are not risking a complete loss of their safety net by working.* Such an approach is both fiscally prudent and humane.

Implementation Issues and Resources Necessary for Implementation of SSDI Offset

As noted, the process findings from each of the four states found implementation of the offset rules proved extremely difficult. Based on the experience of the pilots, SSA understands the tremendous challenge in implementing an offset in a reliable and predictable manner. If an offset is implemented without appropriate resources and planning, it would put thousands of beneficiaries at risk. To prevent that outcome we recommend to policy makers consider the following:

Elimination of the Trial Work Period and Extended Period of Eligibility: This proposal has already been noted but is worth repeating. Many of the challenges in administering an offset in the pilot states were the result the amount of time and effort it took SSA to determine when Trial Work Months were used. Eliminating the Trial Work Period in particular would reduce administrative burden to SSA and make the offset rules fairly straightforward and easy to understand for beneficiaries. It would also make the work rules for the SSI and SSDI programs much more consistent and thereby further reduce complexity and confusion.

Phased Implementation of the Offset: Given the scope of this policy change and the potential for confusion and even harm to beneficiaries. Therefore policy makers should consider a phased implementation of a national offset, possibly piloting implementation in discreet sites.

Expansion of Benefits Counseling Resources: It was the experience of all four pilot sites that effective benefits counseling is a key component in use of the offset and other work incentives. Beneficiaries will use the offset and other work incentives if they have access to accurate information and expert benefits counseling support.