SSDI Reform: Promoting Return to Work without Compromising Economic Security

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SSDI Reform: Promoting Return to Work without Compromising Economic Security

Summary
With the Social Security Disability Insurance (SSDI) trust fund on the verge of depletion, Congress must enact structural reforms to the SSDI program that address and counter the rapid growth in SSDI enrollments in recent years. This brief details a work incentive program for SSDI beneficiaries, called the Generalized Benefit Offset (GBO), which would help get SSDI recipients back into the labor force, enhancing their own economic welfare while increasing economic output on a societal level.

Keywords
SSDI, labor, Social Security Disability Insurance

Disciplines
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Social Security’s Trustees have indicated that the Social Security Disability Insurance (SSDI) trust fund will be fully depleted by late 2016 unless the U.S. Congress enacts changes before then.

Lawmakers must either add resources or reduce the program’s future benefit obligations. Without such action, SSDI revenues would be sufficient to pay just 81 percent of current-law benefits after the trust fund is exhausted.

As in years past, Congress is widely expected to ensure that current SSDI beneficiaries continue to be paid benefits at today’s levels. The most likely short-term change would be to draw upon the resources of the retirement portion of Social Security—the Old Age and Survivors Insurance (OASI) trust fund. Over the longer term, however, the finances of both SSDI and OASI programs must be reformed because the combined trust funds are projected to be exhausted by the year 2034. In particular, SSDI’s history of rapid enrollment growth indicates serious structural deficiencies that Congress should seek to rectify.

As described in the Penn Wharton Public Policy Initiative’s August 2013 brief, “The Urgency of Reforming Entitlement Programs: The Case of Social Security Disability Insurance,” the number of SSDI beneficiaries has grown at an alarming rate. From 1980 to 2013 the population of insured workers receiving SSDI benefits grew from 4.1% to 6.7%, or from 4.7 million to 11 million people. Moreover, in contrast to growth in enroll-

### SUMMARY
- With the Social Security Disability Insurance (SSDI) trust fund on the verge of depletion, Congress must enact structural reforms to the SSDI program that address and counter the rapid growth in SSDI enrollments in recent years.
- This brief details a work incentive program for SSDI beneficiaries, called the Generalized Benefit Offset (GBO), which would help get SSDI recipients back into the labor force, enhancing their own economic welfare while increasing economic output on a societal level.
- Current SSDI policies, which deny benefits if beneficiaries exceed a designated income threshold, create a disincentive for SSDI recipients to return to the workforce. GBO, on the other hand, avoids this disincentive by providing a subsidy to individuals who rejoin the workforce, while maintaining their SSDI eligibility.
- Introduced as part of a broader set of reforms in S. 3003 during the 113th Congress, GBO is an approach that can be combined with other reforms, and merits continued evaluation by lawmakers serious about tackling SSDI’s financial problems at a deeper level.
ments over the last three decades, the rate of terminations due to medical improvement or earnings above the Substantial Gainful Activity (SGA) level has decreased from 29 to just 7 per 1,000 beneficiaries.

It is thus apparent that entry into SSDI implies near-permanent dependency on the program’s benefits. For many beneficiaries, this is because of the severe nature of their medical impairments. Yet, low observed recovery rates may also be the result of the program’s rules, which preclude working above the SGA level and maintaining eligibility to SSDI benefits. One study comparing cohorts of similar applicants suggests that more than one-quarter of those granted benefits may have residual work capacity.\(^2\) A different study examining cases at the Administrative Law Judge stage shows that the likelihood of working after being rejected for SSDI benefits is as high as 35 percent.\(^3\)

This brief builds on the August 2013 brief on “The Urgency of Reforming Entitlement Programs,” introducing a way to determine whether SSDI beneficiaries have residual work capabilities. In particular, it outlines a post-entitlement work incentive program that would be economically beneficial to SSDI recipients and that could increase labor force participation and economic output on a societal level.\(^4\)

**THE POLICY LANDSCAPE AND THE NEED FOR STRUCTURAL REFORM**

Last year, at the end of the 113th Congress, Senator Tom Coburn introduced S. 3003 to the Committee on Finance “To Protect the Social Security Disability Insurance Program and Provide Other Support for Working Disabled Americans.” This bill notably incorporated a proposal (see Generalized Benefit Offset, below) to introduce work incentives, along with several other SSDI reform elements.

Lawmakers are beginning the process of evaluating many “pre-entitlement” reform proposals for introducing early intervention programs to help workers remain in the workforce for longer, revising SSDI’s procedures for determining allowances, and combating fraud. But they should also consider changing the program’s benefit structure—a “post-entitlement” reform to improve incentives for SSDI beneficiaries to return to work, if they can, without the threat of losing their SSDI eligibility. Reforms of this nature would increase the earning output on a societal level.

**NOTES**

4. For additional background information on the SSDI program, including its history, recent enrollment growth and causes, changes in eligibility (especially for conditions that are non-certifiable medically), the economy’s effects on the program, the application and adjudication processes, and an explanation on how SSDI financially traps beneficiaries and keeps them out of the workforce, refer to the previous Issue Brief here: http://publicpolicy.wharton.upenn.edu/issue-brief/v1n8.php.
5. This last category of reforms is more administrative in nature. Examples of such reforms could encompass elimination of the early retirement option at 62; increased work requirements; both recent and total; adjusted age categories for vocational factors; inclusion of Social Security Administration representation at Administrative Law Judge hearings; updating of SSA’s listing of impairments; increasing the incidence of Continuing Disability Reviews; supported work policies in tandem with experience rating for employer payroll tax rates; employer-sponsored private disability insurance;
potential of beneficiaries and remove the undesirable result of SSDI’s current benefit structure—of inducing SSDI beneficiaries with residual work capability to stay out of the workforce.

Reform efforts can be grouped into four categories:
1. Providing early support services—remediation, counseling, health care, and work-accommodations—to help those experiencing disability onset to remain in the workforce
2. Tightening eligibility conditions for program entry
3. Improving adjudication accuracy, preventing fraud, and reducing improper payments
4. Replacing work disincentives in SSDI’s benefit structure with work incentives to induce work-capable SSDI beneficiaries to return to work voluntarily

The challenge in designing incentives for workers to delay or forego applying to SSDI lies in the proper identification of workers at risk of developing debilitating conditions well before their condition deteriorates to the point of no return and compels an application to SSDI. Early provision of employment supports, health care services, and counseling can prolong time on the job and may postpone or prevent eventual entry into SSDI. But comprehensive and regular testing of the SSDI insured worker population to provide such supports would be costly and may induce worker behavior to qualify for such services.

Introducing employer incentives to provide employment supports to workers—for example, by experience rating SSDI payroll taxes—is also not without pitfalls. Such a policy may make employers reluctant to hire workers with disabilities. In general, policies to prevent or delay applications to SSDI may prove costly and may be difficult to enact because SSDI benefits constitute an “earned right” under the law. Program enrollment growth arising from procedural shortcomings, loopholes, lax enforcement of eligibility rules, or insufficient training of adjudicators therefore should be addressed with direct reforms to those program elements.

The challenge with tightening eligibility conditions is the risk of alienating well-organized and invested constituencies of workers, beneficiaries, and disability advocacy groups. But the challenge to providing incentives for beneficiaries to return to the workforce arises directly from SSDI’s definition of disability and the operational eligibility conditions that emerge from it. A system that continues to pay benefits only if earnings remain below a low dollar limit, and only if there is insufficient medical improvement, will naturally induce beneficiaries to remain out of the workforce and to not seek improvements in their health and vocational abilities with any urgency.

The remainder of this brief examines the creation of incentives for SSDI beneficiaries with residual work capacity to resume work at above-SGA levels without fear of benefit termination. This is accomplished by providing a generalized benefit offset (GBO) that is scaled to beneficiary earnings. Policies in this vein have been instituted in other countries, including Norway, Britain, Sweden and Australia.

THE GENERALIZED BENEFIT OFFSET MODEL

Under the current system, a disabled individual who is earning “too much” (i.e., someone who consistently surpasses the dollar earnings limit of the Trial Work Period (TWP) rule) is suspended from SSDI benefits. This effectively discourages individuals with residual work capacity—including those who may be going through the

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and improved early intervention programs.

6 As with Old-Age and Survivors Insurance (OASI), SSDI benefits are based on a worker’s past earnings. Individuals must be unable to sustain earnings at or above the substantial gainful activity (SGA) level because of a mental or physical impairment that is expected to last at least one year or result in death. The current monthly level of SGA is $1,090 for non-blind and $1,820 for blind individuals. Eligibility for SSDI also qualifies the disabled worker’s spouse and children for dependent benefits.


8 A month counts toward the Trial Work Period if earnings exceed a dollar limit applicable during the year. In 2015 the limit is $780. Accumal of 9 TWP months within the last 60 months results in benefit suspension. Benefit termination occurs if earnings remain above the SGA level during the Extended Trial Work Period (ETWP) of an additional 36 months.

lengthy SSDI application process, or who have enrolled in SSDI but have adapted to their health conditions and regained some work capacity—from earning more than $13,000 per year, to avoid jeopardizing their SSDI eligibility. The fear of suffering a relapse in one’s health condition after losing SSDI eligibility because of high earnings may be inducing most beneficiaries to disengage from the labor force.

Accordingly, the data on who among SSDI beneficiaries actually can and cannot work is poor. This situation has also plagued SSA-operated pilot projects—including Ticket to Work, Benefit Offset Pilot Demonstration, Benefit Offset National Demonstration—which were designed to encourage beneficiaries to return to the labor force by offering to reduce benefits by $1 for every $2 of earnings above the SGA level. In these cases, naturally risk-averse individuals who have previously experienced a work-limiting disability may not be convinced that they will retain eligibility for SSDI, should they need it, after the demonstration programs are terminated.

A better system would be one that: 1) pays individuals to rejoin the workforce if they can by offering a subsidy to earnings at the margin, and 2) maintains eligibility even in periods when the benefit is not paid, thereby readjusting SSDI benefits upon any decline or loss of earnings due to fluctuating health or labor market conditions.

As illustrated by Figure 1, the proposed GBO system incorporates these two elements, and in so doing circumvents the disincentive of the cash cliff associated with losing SSDI benefits under current law at the SGA threshold.

Consider the following stylized example. Under current law, a beneficiary with a primary insurance amount (PIA) of $1,150 and zero earnings has total income of $1,150. If the beneficiary joins the workforce and begins to earn wages, total income increases dollar-for-dollar with earnings until earnings reach the SGA level of $1,090. When earnings equal SGA, total income equals $2,240. However, earning just one dollar more than SGA disqualifies the beneficiary and total income falls to $1,091.

When earnings equal SGA, therefore, the beneficiary’s total income encounters a “cash cliff”—as shown by the line in red dashed line in Figure 1. Under GBO, the safety-net benefit (the line in blue dashes) is increased slightly above the PIA ($1,150) at zero earnings but declines at a constant rate as earnings increase.

In exchange for the enhancement to the benefit at zero earnings, beneficiary earnings are subject to a tax when earnings are positive but low. However, the tax rate on earnings is reduced as earnings increase, and it is eventually converted into a subsidy at
higher earnings levels. This earnings subsidy is the wage-incentive component of GBO’s benefit structure.

The sum of earnings, the safety-net benefit, and the wage incentive payment make up the beneficiary’s total income (shown as the unbroken blue line in Figure 1). It shows that for a considerable range of earnings beyond the SGA level, working beneficiaries could have much higher total income under GBO than under current law. Indeed, the slope of the total GBO income is steeper than the 45 degree line for earnings around the SGA level—providing a significant net incentive for SSDI beneficiaries to rejoin the workforce.

This type of two-pronged benefit structure for SSDI, which includes full protection of working beneficiaries’ SSDI eligibility—the right to quit work (for health or any other reason) and have full safety-net SSDI benefits restored—would eliminate the fear of permanent loss of SSDI benefits and would likely induce stronger efforts by SSDI beneficiaries to return to work. Restructuring the SSDI benefit in this manner is likely to work better than the aforementioned “$1 for $2” benefit offset work-incentive pilots and demonstration projects that the Social Security Administration is currently testing. Those pilots eliminate the current law cash cliff, but replace it with a very poor work incentive system. Indeed, the “$1 for $2” benefit-offset ratio may be viewed by beneficiaries as a 50 percent marginal tax rate on earnings—and, thus, not a very strong return-to-work incentive. GBO’s benefit structure, in effect, reverses the rationale for SSDI benefits, switching it from a payment to remain idle to one that rewards work.

Under GBO, work-incentive subsidy payments to working beneficiaries would be funded via an annual provision to SSA from the general budget account (mandatory rather than discretionary, similar to the funding of non-premium-covered expenditures for Medicare Parts B and D).

Adopting GBO would be very beneficial for SSDI beneficiaries and the national economy given current program conditions. With many workers qualifying for SSDI benefits during economic downturns on the basis of difficult-to-medically-certify health diagnoses, beneficiaries’ residual work abilities remain unknown. The problem is compounded by the cash-cliff under current laws which may be inducing many work-capable beneficiaries to remain out of the workforce for fear of losing eligibility to SSDI benefits. GBO’s stronger work incentive structure would reveal who among SSDI beneficiaries can and cannot work by providing them with a reason to voluntarily make choices appropriate to their specific health conditions and residual abilities. Those who can work would choose to do so, to take advantage of GBO’s earnings subsidy. Those who remain out of the labor force despite GBO’s work incentive system would reveal their health conditions to be fully disabling.

Note, however, that GBO’s success depends crucially on excluding earnings as a criterion for withdrawing SSDI eligibility from those who previously were deemed qualified for SSDI benefits based on the decision criteria written into law. For GBO to operate effectively, a certifiable medical improvement relative to the condition that triggered SSDI eligibility should be the only reason for which beneficiaries could be disqualified from SSDI.

ESTIMATING GBO’S BUDGET COST COMPARED TO CURRENT SSDI RULES

There is considerable uncertainty about the extent to which SSDI beneficiaries might expand their labor force participation under GBO. The only way to fully reveal this information, of course, would be to directly and fully introduce GBO in place of SSDI’s current benefit system. Doing so is unlikely to involve new and significant taxpayer costs unless GBO induces a commensurate and beneficial behavioral response from SSDI beneficiaries to return to work. Thus, whereas some other SSDI reform proposals require up-front investments before reaping SSDI cost savings, GBO requires an up-front beneficial outcome before incurring any taxpayer costs.

Estimating GBO’s cost ahead of its implementation inherently requires one to estimate the behavioral response that GBO would produce in terms of return-to-work by SSDI beneficiaries. However, if GBO induces a significant number of workers to begin earning more than the SGA level, GBO’s cost should be measured against the pre-behavioral-change cost of maintaining current law—where current law benefit payments would continue. Comparing GBO’s cost against current law when the latter is evaluated on a post-behavioral change basis—where it would be zero for those who commence earning more
than SGA because of GBO—would underestimate the cost of the status quo relative to implementing GBO. Unfortunately, there is little information available publicly to evaluate GBO’s costs relative to projections under current SSDI laws. A useful step would be for Social Security actuaries to provide cost estimates for a GBO-type reform based on the best information available to them.

It should be noted that, notwithstanding the paucity of information about its potential behavioral impact, implementing GBO is likely to prove beneficial. It would act as a backstop to reduce the economic loss from inaccurate SSDI allowances by incentivizing beneficiaries to return to work, if they can. Thus, it would directly generate the missing information over time about beneficiaries’ remaining work capabilities. Second, GBO is complementary to, and likely to enhance the beneficial effects of, other pre- and post-entitlement reforms that lawmakers and others have proposed. Third, the additional budget cost that GBO may require, if and when beneficiaries return to work, is likely to be recouped by gains in economic productivity and output and by improvements in working beneficiaries’ living standards. Fourth, working beneficiaries under GBO would also accrue higher retirement benefits after they are shifted to OASI upon reaching their full retirement ages. Fifth, GBO is unlikely to incent entry into SSDI by workers with marginal health impairments, as the waiting time for being approved would only hinder their accrual of earnings and OASI retirement benefits. Overall, GBO is likely to provide workers and disabled beneficiaries better economic protection against market and health risks without compromising work incentives. And last, but not least, GBO would increase the psychological well-being of individuals with disabilities from greater community participation and self-support through work.

CONCLUSION

The factors behind the escalation in SSDI enrollments and outlays are complex but it’s clear that deeper program reforms are overdue. The focus on providing SSDI benefits to only those who do not work above the SGA likely dampens labor participation and induces those with medical impairments to seek out and remain permanently dependent on SSDI benefits.

Legislative initiatives to directly alter SSDI procedures and tighten eligibility criteria, or to increase SSDI payroll taxes, will face very strong resistance from well-organized political interest groups concerned with preserving the status quo. Nonetheless, policymakers today appreciate the financial jeopardy that the SSDI program is facing and the need to look beyond short-term resource reallocations from the OASI trust fund.

It is against this backdrop that the generalized benefit offset model, or GBO, offers a more robust approach than prior SSA pilots to incentivize labor market reentry by SSDI beneficiaries with residual work capacity. Introduced as part of a broader set of reforms in S. 3003 during the 113th Congress, it is an approach that can be combined with other reforms and merits continued evaluation by lawmakers serious about tackling SSDI’s financial problems at a deeper level.

Straightforward economic analysis suggests that GBO would provide stronger work incentives with sizable economic benefits at minimal cost. That’s because GBO reverses the reason why SSDI beneficiaries receive payments. It is a model that moves away from effectively discouraging beneficiaries from returning to work and towards encouraging those who can return to work to do so. It accomplishes this by introducing a wage-incentive payment linked to earnings and offsets its cost by reducing the trust fund-financed benefits of those who can work. And GBO protects SSDI beneficiaries’ eligibility for the program’s safety net benefits because of earnings, as job separations for health or other reasons lead to safety net benefits being reinstated. Such a flexible and two-pronged SSDI benefit system is more likely to induce work-capable beneficiaries to return to work—a choice many SSDI insured workers would make voluntarily, but cannot, given the current “cash cliff” at the SGA threshold. And SSDI beneficiaries would continue to accrue earnings under GBO to potentially obtain higher OASI benefits upon reaching retirement age.

In addition to addressing the SSDI trust fund shortfalls through short-term resource transfer from OASI, Congress should consider a new, GBO-like benefit structure for SSDI to improve the overall financial welfare of individuals with disabilities and increase national productivity and output.
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