Testimony of James Smith
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Before the
House Ways and Means Committee

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A Proposed Policy Change
How to Make Work "Worth It" for Social Security Disability Insurance (SSDI) Beneficiaries

Chairman Ryan, Ranking member Levin, and members of the Committee:

Thank you for this opportunity to talk to you about a longstanding barrier to return to work for Social Security Disability Insurance (SSDI) beneficiaries. I am very happy to see that you are focusing on return to work as part of the policy discussion for the future of this critical program for people with disabilities.

My name is James Smith. I am currently the Budget and Policy Manager for the Vermont Division of Vocational Rehabilitation. I have worked directly with SSDI beneficiaries to help them go to work since 1986, in both New York and Vermont. My state has a long history of partnership with the Social Security Administration and has participated in numerous demonstrations to improve employment outcomes for beneficiaries. Over the years, we have talked with thousands of SSDI beneficiaries about their efforts to return to work and some of the challenges they face. Based on this experience, I am convinced a significant number of current SSDI beneficiaries want to and can work at higher levels and increase their earnings. However, I am also convinced that the current SSDI work rules undermine the efforts of beneficiaries to return to work and ultimately have a better life.

Advocates, disability policy analysts and researchers have long identified the SSDI "cash cliff" as a critical area for policy reform. The "cash cliff" describes the SSDI rules whereby a beneficiary may earn a single dollar above a SSA established maximum amount (Substantial Gainful Activity SGA)—an amount below the poverty line—and that dollar could easily result in a complete loss of the SSDI cash benefit. Many stakeholders have argued the threat of a sudden loss of benefits and possible detachment from the SSDI program forces beneficiaries to limit their earnings rather than risk total loss of support.

What is the SSDI "Cash Cliff" from the beneficiary's perspective

Before getting into the details, it is important to look at how the SSDI work rules look to the beneficiary. The following is an example of how the current SSDI program work rules apply and how the "cash cliff" acts as a major disincentive to work.[1]

Joe's Job	Joe's Earnings	Joe's SSDI Benefit	Joe's Total Income
Joe takes a part time job earning $14 per hour. He works 15 hours per week.	Joe's total monthly earnings are $903.	Because Joe is earning below $1,090 per month he receives his whole SSDI check of $1,000.	Earnings of $903 plus SSDI income of $1,000 equals a total of $1,903 per month.
Joe's boss wants him to work 20 hours per week at $14 per hour.	Joe's total monthly earnings are $1,204.	Because Joe is earning above $1,090 per month he ***loses*** his whole SSDI check, so his benefit is $0.	Earnings of $1,204 plus SSDI income of zero equals a total of $1,204.

- If Joe increases his hours from 15 to 20 per week, his total monthly income is actually reduced by $699.
- Joe would have to work 32 hours per week just to maintain the income he would have working only 15 hours per week.
- If he continues to work above the $1,090 Substantial Gainful Activity (SGA) he risks losing eligibility for the program.
- Because Joe has a disability that is unpredictable (schizophrenia) he feels it is an unreasonable risk.

As a result Joe does not attempt to increase his earnings and continues to receive his full SSDI benefit. Joe is financially penalized and there are no savings to the trust fund.

The experience of the SSDI "cash cliff" is made more difficult by the complexity of the program rules associated with work. The SSDI program includes three phases during which earned income is treated differently. The following is a brief summary of some of main the work rules:

- A beneficiary has a nine month Trial Work Period where earnings at any level will not result in a reduction in benefits. The Trial Work Period does

[1] This example is based on the 2015 figures for Substantial Gainful Activity, the threshold at which an SSDI payment may be ceased.

not have to be worked over consecutive months and is triggered for earnings at $780 per month (a different dollar amount than SGA).

- On completion of the Trial Work Period, a beneficiary who earns above the SGA amount has a three month grace period.

- When the Trial Work Period ends the beneficiary enters the Extended Period of Eligibility, which lasts for 36 consecutive months. During this period, any earnings above SGA result in a suspension of the SSDI benefit for that month. If the beneficiary reduces their earnings below SGA, their benefit resumes.

- After the extended period of eligibility is complete, any earning above SGA will result in the beneficiary losing eligibility for SSDI.

- If a beneficiary has lost eligibility for SSDI because of work activity they can apply for expedited reinstatement without having to submit a whole new application for benefits. Expedited reinstatement provides the beneficiary a provisional benefit, while SSA determines if the person is still eligible. The request for expedited reinstatement must occur within five years from the month the benefit ended.

The highly complex design of the work rules are confusing to beneficiaries and can easily lead to overpayments. Overpayments create fear and hardship for beneficiaries faced with paying back large sums of money. According to the GAO the complexity of these rules and SSA's challenges implementing them have contributed to the SSDI program making significant overpayments ($11 Billion between 2005 and 2014).[2]

Case Examples: How the Cash Cliff Affected Susan and John

Joe's example is not the exception. The following are some real life examples of individuals who have had to limit their work because of the cash cliff.[3]

Susan Jones

Susan Jones has been receiving SSDI since 2006 due to a mental illness. She is eligible for her own benefit and has a minor child eligible for a dependent benefit. The two benefits total about $1,900. She receives ongoing treatment at her community mental health agency and had been hospitalized several times since 2006 for treatment. She started working with Vermont Vocational Rehabilitation in 2008. Initially Susan felt she needed to limit her work due to

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[2] Testimony Before the Subcommittee on Social Security, Committee on Ways and Means: Disability Insurance, Preliminary Observations on Overpayments and Beneficiary Work Reporting. June 16, 2015.

[3] To protect the beneficiary's confidentiality, the names of individuals have been changed.

the severity of her symptoms. So she kept her income below the Trial Work Period limit. She wanted to preserve her Trial Work Period months for when she felt able to sustain more earnings.

Vocational Rehabilitation provided regular support to Susan to manage her high level of anxiety as she tried to increase her work hours. Early in 2014 Susan felt she could increase her hours, and the supermarket where she worked offered her more hours. She began using her Trial Work Period months and by September 2014 she had used all nine months. At this time she was offered a supervisory position, however she would only be earning $1,200 - $1,300/month gross wages. Susan was thrilled to be recognized for her abilities by her employer, and felt that she has progressed through her work. She also understood that working over the SGA level at that time would result in the suspension of both her SSDI benefit and her child's dependent benefit. She could not afford to lose the SSDI, so she declined the supervisory job and reduced her hours of work to earn below the SGA level.

John Lemay

John Lemay is a young man who was injured in a motorcycle accident and as a result has paraplegia, requiring a manual wheelchair for mobility. He receives SSDI of about $1,050 a month. Prior to his injury he was working in a factory environment, operating a machine. Following medical rehabilitation John was able to return to his previous employment. However, it was necessary for his work station to be modified because he needs to utilize leg braces and a harness, and was unable to work at his previous level of employment.

Unfortunately, he did not fully understand the effect of his work on his SSDI and his earnings for some months exceeded the SGA level. He accumulated a major overpayment of over $10,000 – an amount he felt he could never pay back. He contacted Vocational Rehabilitation who helped him with identifying some of his Income Related Work Expenses (IRWE) to reduce his countable income and reduce the size of the overpayment. However, he will still have to pay back most of the money.

John relies on his SSDI benefit and in particular the associated Medicare benefits, which are essential for his specific medical needs. So he made the decision to further reduce his hours to earn below the SGA level on an ongoing basis. Unless an offset becomes available, John is unlikely to ever work above the SGA "cash cliff" threshold.

As these case studies illustrate, clearly the current design of the program presents a powerful disincentive for SSDI beneficiaries to increase their earnings. To many SSDI beneficiaries, the rules of the program seem to reward a person for limiting their work or not working, while punishing those who try to work more and reduce their dependence on the system. *It is therefore not* *surprising that less than half of one percent of SSDI beneficiaries leave the benefit rolls annually as a result of work activity.*[4]

The Obvious Alternative

The obvious alternative to the SSDI "Cash Cliff" is graduated earnings offset, where benefits are gradually decreased as earnings increase. To its great credit, Congress has already implemented an earnings offset in the Supplemental Security Income (SSI) program. The SSI earnings offset has been in place for over three decades and provides SSI beneficiaries with a clear incentive to work. So this is by no means a new or untested approach.

The concept of a $1 for $2 earnings offset is very simple. A threshold is set for beneficiaries, where any earnings above that threshold are reduced $1 for every $2 earned until the beneficiary zeros out their benefit.[5] Under this model, the beneficiary is always better off financially the more they work and earn. It provides a clear and simple incentive for the beneficiary to try to work as much as they possibly can.

The Four State Offset Pilot Studies

While the merit of the $1 for $2 offset model seems to be common sense, until recently there had been no research to support the assumption that beneficiaries would actually increase their employment if an offset were available. However, data from the four state pilots established by the Social Security Administration (SSA) between 2005 and 2009 have provided clear evidence that a gradual offset of SSDI benefits would result in increased earnings.

The four state pilots included Connecticut, Wisconsin, Utah and Vermont. The study was implemented using a rigorous random assignment experimental design to test the effect of a $1 for $2 offset starting at SSA Substantial Gainful Activity (SGA) "Cash Cliff" threshold ($830 in 2005). The offset was time limited to 72 months after the completion of the Trial Work Period, so beneficiaries knew they would not have the $1 for $2 offset forever.[6] A total of 1,829 SSDI beneficiaries participated in the study (929 in the offset group and 900 in the control group).

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[4] Annual Statistical Report on the Social Security Disability Insurance Program, 2011.
[5] The SSI program currently has an earned income threshold of $65. So, any monthly earnings above that amount are subject to the $1 for $2 earnings offset.
[6] A full description of the four state pilots and research outcomes and published papers can be found at: http://www.socialsecurity.gov/disabilityresearch/offsetpilot.htm.

In summary, the results of the four state pilots were as follows:

- Three of the four states (Connecticut, Utah and Vermont) found that beneficiaries with the offset were statistically more likely to work above the SGA "Cash Cliff" level than the control group over a two year evaluation period.

- Wisconsin did not find statistically significant differences during the two year evaluation period. However, Wisconsin continued to track participants beyond the two years post enrollment and found participants with the offset were more likely to work and earn above SGA.[7]

- Overall, for the offset group across the four states, the policy led to a 25 percent increase in the percentage of beneficiaries with earnings above the annualized SGA or "Cash Cliff" amount.[8]

Case Examples: What the Offset Meant for Donna and James

While the research findings are important it is essential to understand the personal stories behind the offset.

Donna Laurin

In 2006 Donna Laurin received a diagnosis of Stage 3A Melanoma.[9] Because of the severity of her illness she was not expected to survive. At the time, her only request to her doctors was that "they give her enough time to get her kids through college". Between 2006 and 2011 Donna made multiple attempts to return to work, but had to stop during four separate reoccurrences of her illness. With each work attempt after her Trial Work Period, her benefit was suspended because she worked above SGA. In 2013, she was able to participate in a benefit offset through the Benefit Offset National Demonstration (BOND). Having access to the offset allowed Donna to work to the level her health allowed and keep a portion of her benefits. It also provided her with the extra income to support her children through college. She is currently working thirty hours a week as social worker. She recently was offered a full time job at the Veterans Administration and as a result she will be earning enough to zero out her benefits. Her cancer is currently in remission.

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[7] Given Time It Worked: Positive Outcomes From a SSDI Benefit Offset Pilot After the Initial Evaluation Period: Barry Delin, Ellie Hartman and Christopher Wells; Journal of Disability Policy Studies 2015, Vol 26 (I) 54-64.

[8] The impact of changing financial work incentives on the earnings of Social Security Disability Insurance (SSDI) beneficiaries; Robert R. Weathers II[1], Jeffrey Hemmeter; Journal of Policy Analysis and Management Volume 30, Issue 4, pages 708–728, Autumn (Fall) 2011.

[9] Donna gave her consent for her name to be used in this testimony.

James Duncan

James Duncan has been receiving SSDI since March 2002.[10] He is an amputee who utilizes a prosthetic leg, and has heart and kidney conditions. He currently receives a benefit about $1,600. In October 2005, Jason volunteered for and was randomly assigned to participate in the four-state Benefit Offset Pilot Demonstration (BOPD). With this benefit he was able to go to work and earn about the SGA level with a $1 for $2 reduction of his SSDI for earnings over the SGA level. During his participation in BOPD, James achieved earnings from $1,800 to over $2,000 per month for the first 5 years of his eligibility. James was working in a factory setting and his work was physical. For his last year of Pilot eligibility he had to reduce his hours for health reasons but was still earning about $1250 per month (above the SGA level).

James is continuing to work, but when his Pilot eligibility ended he reduced his earnings below SGA – he needed both his SSDI and earnings to meet his financial obligations. He also needs to maintain his Medicare and Medicaid coverage to maintain his health. Jason is in regular contact with his Vocational Rehabilitation benefits counselor for assistance with reporting to SSA and understanding SSA communication. He will probably never risk working above SGA again unless an offset becomes available.

The Policy Implications of the Four State Pilots

Based on the results of the four state study, the removal of the “Cash Cliff” had a positive impact on beneficiary earnings. This was despite the fact that this was a very time-limited pilot in which the beneficiaries knew they would not have the offset forever. It also provides strong evidence that the current SSDI work rules suppress work activity because of a clear and obvious financial disincentive. SSDI work rules that actually suppress beneficiary work activity surely must be bad policy.

Just as importantly, as Donna’s and James’s stories illustrate, an offset offers a way for people receiving SSDI to go back to work without putting themselves at financial risk. This is especially true for people like Donna who have an illness that is not predictable, and who do not know from month to month how much they will be able to work.

Suggested Policy Adjustments

The question then is, what is the policy alternative? Is it possible to improve the SSDI work incentives and increase beneficiary earnings while at the same time be cost neutral, or even generate savings to the program as a whole? I believe it is with the following policy adjustments.

[10] The beneficiary’s name has been changed to protect his confidentiality.

- ***Implement a graduated $1 for $2 offset of earnings to SSDI benefits to always make work pay:*** 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 and more predictable to the beneficiary.

- ***Start the offset at a threshold that is less than SGA to generate savings or be cost neutral to the program:*** The four State Pilots tested an offset starting at SGA. However, Congress may want to consider alternative thresholds for an offset. Right now SSA pays 100% of a beneficiary's benefit unless the beneficiary earns above SGA, so most work activity does not result in any savings to the program. Starting an offset at a point below SGA would be more likely to generate savings or be cost neutral to the Trust Fund, while also providing a clear incentive for increased employment. In considering the starting point for an Offset, Congress might want to take into account the following:

    - Setting the threshold for the offset at a very low level might create a hardship for SSDI beneficiaries with very low earnings.

    - Calculating earnings on an annual basis, rather than a monthly basis, would help beneficiaries with unpredictable health conditions that might allow them to work some months and not be able to work other months.

- ***Eliminate the Trial Work Period (TWP) to generate additional savings from work activity and reduce the administrative burden to SSA:*** There appears to be broad agreement among policy makers and stakeholders, that the Trial Work Period adds unnecessary complexity to the SSDI work rules. SSA has proposed eliminating this provision as part of their Work Incentive Simplification Project (WISP).[11] The GAO identified the complexity of the SSDI work rules as one of the factors contributing to $11 billion in work related overpayments from 2005 and 2014.[12] Elimination of the TWP and adding a benefit offset would:

    - Make the SSDI work incentives far more simple and predictable for beneficiaries.

    - Result in savings to the Trust Fund due to the fact that under the current rules SSA pays 100% of the benefit during the TWP regardless of how much the beneficiary is earning at the time.

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[11] http://www.ssa.gov/disabilityresearch/projects.htm.

[12] Testimony Before the Subcommittee on Social Security, Committee on Ways and Means: Disability Insurance, Preliminary Observations on Overpayments and Beneficiary Work Reporting. June 16, 2015.

- Reduce overpayments – a major hardship for beneficiaries and a loss of taxpayer dollars when they are not repaid.
- Eliminate the administrative burden of tracking the TWP for SSA.

❖ ***Replace the Extended Period of Eligibility (EPE) with continued attachment to the SSDI program, regardless of work activity, as long as 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" after the EPE ends, 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. This proposal is unlikely to add significant costs to the program because so few beneficiaries (0.5% annually) leave the rolls under the current SSDI rules, because of work. In addition, SSA has already proposed this reform as part of the Work Incentive Simplification Project (WISP).

The continued attachment proposal assumes that SSA would and should continue to implement medical reviews of beneficiaries to determine their continued medical eligibility for the program. This would make sure people who had medically recovered would no longer be eligible for the benefit.

Summary

I have tried to outline for you today how the current work incentives of the SSDI program are ineffective and actually penalize beneficiaries who try to work to their maximum potential. In addition, the complexity of the current work rules often result in overpayments that are a severe hardship for beneficiaries and are sometimes never repaid.

I believe the policy changes that I and many others have proposed would:

- Support return to work by <u>always</u> making work worth it;
- Simplify the work incentive provisions for both beneficiaries and SSA;
- Reduce overpayments;
- Potentially result in cost savings or be cost neutral by eliminating the Trial Work Period and starting a $1 for $2 offset at a point less than SGA; and,

- Provide security to beneficiaries that their work activity will never result in a loss in eligibility for the program, as long as they continue to be medically eligible.

Perhaps most importantly it will provide people like Donna, James, John and Susan a chance for a better life, despite the challenges of living with a severe disability.

Thank you so much for the opportunity to testify today.

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