Testimony of James Smith

Before the Social Security Subcommittee

House Ways and Means Committee

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

Chairman Johnson, Ranking member Becerra, and members of the Subcommittee:

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 New York and Vermont. I and my state have a long history of partnership with the Social Security Administration and have participated in numerous demonstrations to improve employment outcomes for beneficiaries. Over the years, I and my staff 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 portion 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.

As you know, there has been a dramatic increase in the number of beneficiaries entering the SSDI program. This increase threatens the solvency of the program as soon as 2016. While there are many reasons for this growth, including broad demographic trends, there is also strong evidence that more people with disabilities have become detached from the workforce and are entering the SSDI program. There are two broad employment policy strategies that could help to slow this growth:

- Intervene early to prevent workers with disabilities becoming detached from the workforce in the first place; and
- Provide effective incentives and supports for current SSDI beneficiaries to re-enter the work force and reduce their SSDI payments.

I am going to speak to the second of these approaches and how current efforts to help SSDI beneficiaries return to work at substantial levels are hamstrung by the program's outdated work rules. In particular how the "cash cliff" built into the SSDI program is a powerful disincentive to work.

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—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 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.

However, until recently, there has been no rigorous research to support this assertion. Today I want to briefly describe a four state study, that my state and three other states implemented on this issue. This study tested an alternative set of SSDI work rules that removed the "cash cliff" and replaced it with a gradual ramp down or offset in benefits paid. I believe the findings from this four state study show an offset could increase the number of SSDI beneficiaries who work at a substantial level. I also believe it provides the necessary evidence for a long overdue change in the SSDI work rules.

Based on the results of the four state study, I will outline a proposed policy change that I believe will:

- Support return to work by always making work worth it;
- Increase savings to the SSDI program as a result of work activity;
- Simplify the work incentive provisions for both beneficiaries and SSA; and
- Align the SSDI program with the goals of the Ticket to Work program.

The SSDI "Cash Cliff" from the beneficiary's perspective

Before getting into the details I think it is really 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 $13 per hour. He works 15 hours per week.	Joe's total monthly earnings are $838.	Because Joe is earning below $1,040 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 $1,040 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.

[1] This example is based on the 2013 figures for Substantial Gainful Activity, the threshold at which an SSDI payment may be ceased.

- If Joe increases his hours from 15 to 20 per week, his total monthly income is actually reduced by $620.
- Joe would have to work 31 hours per week just to maintain the income he would have working only 15 hours per week.
- If he continues to work above the $1,040 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.

Clearly the current design of the program presents a powerful disincentive for SSDI beneficiaries to increase their earnings. As a result, 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 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. *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*[2].

The Obvious Alternative

The obvious alternative to the SSDI “Cash Cliff” is graduated earnings offset, where your benefits are gradually decreased as your 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. Between 1987 and 2008, the number of SSI beneficiaries who zeroed out their SSI benefit[3] using the offset

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[2] Annual Statistical Report on the Social Security Disability Insurance Program, 2011.

[3] Under the SSI 1619(b) provision an SSI beneficiary can zero out their cash benefit as a result of earnings but retain eligibility for the program and retain Medicaid eligibility.

increased from 15,532 to 99,481[4]—a fivefold increase. So this is by no means a new or untested approach.

The concept of a $1 for $2 earnings offset is very simple. You set a threshold for beneficiaries, where any earnings above that threshold[5] are reduced $1 for every $2 earned until the beneficiary zeros out their benefit. 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, as I noted earlier, until recently there have been no research data 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[6], so beneficiaries knew they would not have the $1 for $2 offset forever. A total of 1,829 SSDI beneficiaries participated in the study (929 in the offset group and 900 in the control group).

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

[4] SSI Annual Statistical Report, 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.

likely to work over the SGA "Cash Cliff" level than the control group.

- Wisconsin did not find statistically significant differences but had a positive trajectory for the offset group.
- 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.[7]

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.

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 generating savings to the program as a whole? I believe it is with the following policy adjustments.

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.

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[7] 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.

Start the offset at a threshold that is less than SGA to generate savings to the program: The four State Pilots tested an offset starting at SGA. However, Congress may want to consider alternative thresholds as the starting point 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, for example, 50% of SGA ($520 per month in 2013) would be more likely to generate savings to the Trust Fund while also providing a clear incentive for increased employment. Congress 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 (TWP) and Extended Period of Eligibility (EPE) to generate additional savings from work activity and reduce the administrative burden to SSA: The TWP and EPE add a 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 regardless of how much the beneficiary is earning at the time. SSA has already proposed this reform as part of the Work Incentive Simplification Project (WISP).

Continue attachment to the SSDI program if the beneficiary continues to be medically disabled regardless of work activity: 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. This proposal is unlikely to add significant costs to the program because so few beneficiaries (0.5% annually) leave the rolls 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.

Align the SSDI work rules with the Ticket to Work (TTW) Program through implementing the Offset: Employment Networks participating in TTW have a potential conflict of interest with their SSDI consumers because of the “cash cliff”. The majority of payments under the Ticket to Work program occur for earnings above the SGA “Cash Cliff” level. However, this may not always be in the beneficiary’s best financial interest as outlined in the earlier case study of Joe. This puts Employment Networks in a difficult position and may be one reason many potential providers have chosen not to participate in the Ticket program. With an SSDI Offset, this conflict would be resolved because increased earnings would always mean the beneficiary is financially better off. The Employment Networks and the beneficiary’s interests would be clearly aligned in achieving the highest level of employment possible.

Summary

As I have attempted to outline today, under current SSDI work rules, the only circumstance in which there are cost savings to the program 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 a Trial Work Level and then earn above SGA ($1,040) per month before there is a single dollar savings to the program.

In contrast, the proposed policy will result in savings to the program at the point a beneficiary earns over the starting point for an offset (for example 50% of SGA). Beneficiaries’ SSDI checks will be reduced by $1 for every $2 dollars they earn above the offset threshold. I believe this approach is far more likely to result in cost savings to the program. 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.

Thank you for giving me the opportunity to speak to you today. I wholeheartedly agree with Congressman Johnson that “it is just plain wrong that those receiving disability benefits who want to work are sentenced to a lifetime of near poverty with no way out”. I believe the policy adjustments I have laid out today will offer a way out to better life for many beneficiaries.

Thank you.