United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Social Security, Committee on Ways and Means, House of Representatives

For Release on Delivery
Expected at 10:00 a.m.
Wednesday, July 23, 1997

SOCIAL SECURITY DISABILITY

Improving Return-to-Work Outcomes Important, but Trade-offs and Challenges Exist

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GAO/T-HEHS-97-186

Social Security Disability: Improving Return-to-Work Outcomes Important, but Trade-offs and Challenges Exist

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to testify on return-to-work issues facing the Disability Insurance (DI) and Supplemental Security Income (SSI) programs and to discuss various alternatives the Social Security Administration (SSA) could use in developing strategies to help more people with disabilities to work. Each week, SSA pays over $1 billion in cash payments to DI and SSI beneficiaries. While providing a measure of income security, these payments, for the most part, do little to enhance work capacities and promote beneficiaries' economic independence. Yet, as embodied in the Americans With Disabilities Act (ADA), societal attitudes have shifted toward goals of economic self-sufficiency and the right of people with disabilities to full participation in society. Moreover, medical advances and new technologies now provide more opportunities than ever before for people with disabilities to work.

The DI and SSI programs, however, have not kept pace with the trend toward returning people with disabilities to the work place: Fewer than 1 percent of DI beneficiaries, and few SSI beneficiaries, leave the rolls to return to work each year. Yet, even relatively small improvements in return-to-work outcomes offer the potential for significant savings in program outlays. For example, if an additional 1 percent of the 6.6 million working-age SSI and DI beneficiaries were to leave SSA's disability rolls by returning to work, lifetime cash benefits would be reduced by an estimated $3 billion.[1]

Because the current structure of DI and SSI does not encourage return to work, many proposals are being discussed to address this problem. Over the past few years, we have issued a series of reports that have recommended that SSA place much greater priority on helping DI and SSI beneficiaries maximize their work potential—whether part- or full-time—and we continue to urge SSA to act expeditiously in developing an integrated and comprehensive strategy to do so. Our work has demonstrated that SSA's success in redesigning the disability programs is likely to require a multifaceted approach, including earlier intervention, providing return-to-work supports and assistance, and structuring benefits to encourage work.

[1]The estimated reductions are based on fiscal year 1995 data provided by SSA's actuarial staff and represent the discounted present value of the cash benefits that would have been paid over a lifetime if the individual had not left the disability rolls by returning to work. These reductions, however, would be offset, at least in part, by rehabilitation and other costs that might be necessary to return a person with disabilities to work.

At the same time, we recognize the dearth of empirical analysis with which to predict outcomes of possible interventions. In particular, because measures of work responses to changes in work incentives and other return-to-work measures are unknown, any estimates of the net effect on caseloads and taxpayer costs are likely to involve a high degree of uncertainty. Moreover, our analysis of some of the proposed changes to the work incentives illustrates the difficult trade-offs that will be involved in any attempt to change the work incentives. With this in mind, today, I would like to discuss the challenges and trade-offs faced in redesigning the disability programs. We strongly encourage testing and evaluating alternatives to determine what strategies can best tap the work potential of beneficiaries without jeopardizing the availability of benefits for those who cannot work. My testimony is based on our published reports and prior testimonies and our recent analysis of work incentives conducted for Representative Kennelly. (A list of related GAO products appears at the end of this statement.)

Background

DI and SSI—the two largest federal programs providing cash and medical assistance to people with disabilities—have grown rapidly between 1985 and 1995, with the size of the working-age beneficiary population increasing from 4.0 million to 6.6 million. Administered by SSA and state disability determination service (DDS) offices, DI and SSI paid cash benefits approaching $60 billion in 1995. To be considered disabled by either program, an adult must be unable to engage in any substantial gainful activity because of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last at least 1 year. Moreover, the impairment must be of such severity that a person not only is unable to do his or her previous work but, considering his or her age, education, and work experience, is unable to do any other kind of substantial work that exists in the national economy.

Established in 1956, DI is an insurance program funded by Social Security payroll taxes. The program is for workers who, having worked long enough and recently enough to become insured under DI, have lost their ability to work—and, hence, their income—because of disability. Medicare coverage is provided to DI beneficiaries after they have received cash benefits for 24 months. About 4.2 million working-age people (aged 18 to 64) received about $36.6 billion in DI cash benefits in 1995.[2]

[2]Included among the 4.2 million DI beneficiaries are about 694,000 beneficiaries who were dually eligible for SSI disability benefits because of the low level of their income and resources.

In contrast, SSI is a means-tested income assistance program for disabled, blind, or aged individuals regardless of their prior participation in the labor force.[3] Established in 1972 for individuals with low income and limited resources, SSI is financed from general revenues. In most states, SSI entitlement ensures an individual's eligibility for Medicaid benefits.[4] In 1995, about 2.4 million working-age people with disabilities received SSI benefits; federal SSI cash benefits paid to these and other beneficiaries amounted to $20.6 billion.[5]

The Social Security Act states that people applying for disability benefits should be promptly referred to state vocational rehabilitation (VR) agencies for services in order to maximize the number of such individuals who can return to productive activity.[6] Furthermore, to reduce the risk a beneficiary faces in trading guaranteed monthly income and subsidized health coverage for the uncertainties of employment, the Congress has established various work incentives intended to safeguard cash and health benefits while a beneficiary tries to return to work.

Current Program Structure Does Not Encourage Work

In a series of reports, we have discussed how the DI and SSI programs' design and operational weaknesses do not encourage beneficiaries to maximize their work potential.[7] The lengthy disability determination process, which presumes that certain medical impairments preclude employment, requires applicants to emphasize their work incapacities. To address the erosion in motivation to work that could result from applying for benefits, we have recommended that SSA develop strategies to intervene earlier in the application process. For example, before awarding benefits, SSA could help applicants assess their work capacity and, in turn,

[3]References to the SSI program throughout the remainder of this testimony address blind or disabled, not aged, recipients.

[4]States can opt to use the financial standards and definitions for disability they had in effect in January 1972 to determine Medicaid eligibility for their aged, blind, and disabled residents, rather than making all SSI recipients automatically eligible for Medicaid. Often, the Medicaid financial standards used by states are more restrictive than SSI's.

[5]The 2.4 million SSI beneficiaries do not include individuals who were dually eligible for SSI and DI benefits. The $20.6 billion represents payments to all SSI blind and disabled beneficiaries regardless of age.

[6]State VR agencies also provide rehabilitation services to people not involved with the DI and SSI programs.

[7]SSA Disability: Program Redesign Necessary to Encourage Return to Work (GAO/HEHS-96-62, Apr. 24, 1996); SSA Disability: Return-to-Work Strategies From Other Systems May Improve Federal Programs (GAO/HEHS-96-133, July 11, 1996); and Social Security: Disability Programs Lag in Promoting Return to Work (GAO/HEHS-97-46, Mar. 17, 1997).

their ability to maintain economic independence or delay their application for benefits. This would likely involve SSA's collaboration with other federal agencies, such as the Departments of Labor and Education. Significant savings could be achieved by reducing the need for people with disabilities to rely on DI and SSI. Although full-time work may not be achievable, even part-time work could reduce their reliance on benefits.

Regarding those people currently on the rolls, we have also reported that SSA has done little to promote return-to-work measures, such as VR and economic incentives to work. VR services include, for example, guidance, counseling, and job training and placement. VR can help beneficiaries return to work by improving their skills and making them more marketable and competitive. A beneficiary who engages in work encounters additional challenges, however. By returning to work, a beneficiary trades guaranteed monthly income and premium-free medical coverage for the uncertainties of employment. Work incentives, such as access to medical coverage or retention of a portion of their cash benefits while working, are intended to encourage beneficiaries to return to work—and, possibly, leave the rolls—by making work more financially attractive.

In the last couple of years, numerous changes to the work incentives and to the delivery of and payment for VR services have been proposed in legislation and by various interest groups. Most recently, SSA has proposed a VR system emphasizing provider choice. Beneficiaries would get a voucher, usually referred to as a "ticket," which they could use to obtain services from public or private VR providers and which would be reimbursed on the basis of outcomes. In our March 1997 report, we advocated the critical importance of testing and evaluating new measures to return beneficiaries to work. We also cautioned against focusing on one option to the exclusion of alternative measures. We noted, for example, that if SSA tests only one type of VR service delivery system, the agency will forgo the opportunity to compare the results of the proposed outcome-based payment system with those of alternative plans, such as combining outcome-based payments with reimbursements to providers on the basis of milestones reached before the beneficiary leaves the rolls.

In addition, others have proposed changes to financial incentives, including making DI similar to SSI by reducing benefits $1 for every $2 in earnings and revising the deduction of impairment-related expenses. New tax incentives have also been proposed, including tax credits to individuals—making work more financially attractive—and tax credits to employers—encouraging them to hire people with disabilities. Proposed changes to medical benefits include extending premium-free Medicare coverage, scaling Medicare buy-in premiums to earnings, expanding Medicare and Medicaid eligibility, and creating a Medicaid buy-in.

Our work has called for SSA to develop a comprehensive, integrated return-to-work strategy that includes (1) intervening earlier, (2) providing return-to-work supports and assistance, and (3) structuring benefits to encourage work. SSA has agreed that compelling reasons exist to try new return-to-work approaches and, as mentioned, has proposed the creation of a VR ticket to expand beneficiaries' access to VR providers. We believe a successful strategy would incorporate all three components, working in concert, and that beneficiaries are likely to return to work only if it is financially advantageous for them to do so. The remainder of this testimony focuses on the work incentives, the proposed changes to them, and the difficulties and trade-offs involved in their reform.

DI and SSI Work Incentives Provide Different Benefit Protections

The work incentive provisions of the two programs differ significantly, providing very different levels of benefit protection for DI and SSI beneficiaries. One significant difference is that a DI beneficiary's cash benefit stops completely after a period of time, if earnings exceed a specified level, while an SSI recipient's cash benefit is gradually reduced to ease the transition back to work. The gradual reduction in SSI cash benefits yields savings to the government, even if recipients work part time. In contrast, DI beneficiaries who work yield no program savings unless they leave the rolls, because their benefits are not offset. Another difference is that a DI beneficiary can purchase Medicare coverage after premium-free coverage ends (although lower-wage earners may find it too expensive to do so), but an SSI recipient loses Medicaid and is unable to purchase further coverage once he or she exceeds a certain income level. Table 1 highlights each program's work incentive provisions.

Table 1: Highlights of DI and SSI Work Incentive Provisions

Program	Provision
Income safeguards	
DI	Trial work period: Allows beneficiaries to work for 9 months (not necessarily consecutively) within a 60-month rolling period during which they may earn any amount without affecting benefits. After the trial work period, cash benefits continue for 3 months and then stop if countable earnings are greater than $500 a month. Extended period of eligibility: Allows for a consecutive 36-month period after the trial work period in which cash benefits are reinstated for any month countable earnings are $500 or less. This period begins the month following the end of the trial work period.
SSI	Earned income exclusion: Allows recipients to exclude more than half of earned income when determining the SSI payment amount. Section 1619 (a): Allows recipients to continue to receive SSI cash payments even when earnings exceed $500 a month. However, as earnings increase the payment decreases. Plan for Achieving Self-Support (PASS): Allows recipients to exclude from their SSI eligibility and benefit calculation any income or resources used to achieve a work goal.
DI and SSI	Impairment-related work expenses: Allows the costs of certain impairment-related items and services needed to work to be deducted from gross earnings in figuring substantial gainful activity (SGA) and the cash payment amount. For example, attendant care services received in the work setting are deductible, while nonwork-related attendant care services performed at home are not. Subsidies: Allows the value of the support a person receives on the job to be deducted from earnings to determine SGA.
Medical coverage safeguards	
DI	Continued Medicare coverage: Allows for continued Medicare coverage for at least 39 months following a trial work period as long as medical disability continues. Medicare buy-in: Allows beneficiaries to purchase Medicare coverage after the 39-month premium-free coverage ends. Beneficiaries pay the same monthly cost as uninsured retired beneficiaries pay.
SSI	Section 1619 (b): Allows recipients to continue receiving Medicaid coverage when earnings become too high to allow a cash benefit. Coverage continues until earnings reach a threshold amount, which varies in every state.

(continued)

Program	Provision
Eligibility safeguards	
DI	Reentitlement to cash benefits and Medicare: After a period of disability ends, allows beneficiaries who become disabled again within 5 years (7 years for widow(ers) and disabled adult children) to be reentitled to cash and medical benefits without another 5-month waiting period.
SSI	Property essential to self-support: Allows recipients to exclude from consideration in determining SSI eligibility the value of property that is used in a trade or business or for work. Examples include the value of tools or equipment.
DI and SSI	Continued benefit while in an approved VR program: Allows a person actively participating in a VR program to remain eligible for cash and medical benefits even if he or she medically improves and is no longer considered disabled by SSA.

Work Incentives Are Insufficient and Difficult to Understand

Despite providing some financial protection for those who want to work, the DI work incentives do not appear to be sufficient to overcome the prospect of a drop in income for those facing low-wage work. Moreover, the work incentives do not allay DI or SSI beneficiaries' fear of losing medical or other benefits, which could accompany return to work. In addition, the current package of work incentive provisions is complex and difficult to understand, which further discourages work effort. This difficulty in understanding the work incentives is heightened for the 694,000 beneficiaries (11 percent of the beneficiary population) who are dually eligible for DI and SSI. For these concurrent beneficiaries, SSI work incentive provisions apply to the SSI portion of their cash benefit and DI provisions apply to the DI portion of their cash benefit. This adds administrative complexities to the system because earnings must be reported to both programs, each of which has its own reporting requirements and processes. Because SSA does not promote the work incentives extensively, few beneficiaries are even aware that these provisions exist.

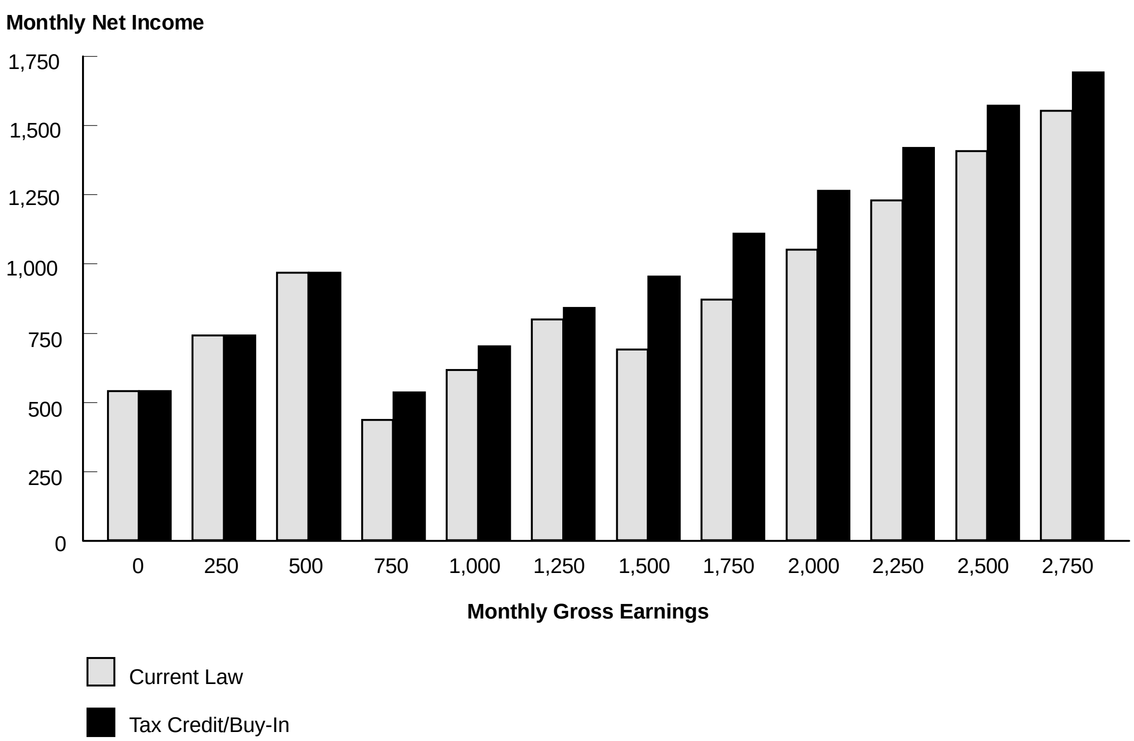
Work Incentives Illustrate Difficult Trade-offs in Disability Reform

Some work incentive changes may help some beneficiaries, or some groups of beneficiaries, more than others. Data from Virginia Commonwealth University's Employment Support Institute illustrate this point.[8] For example, figure 1 shows that under current law, a DI beneficiary's net income may drop at two points, even as gross earnings

[8]The Employment Support Institute at Virginia Commonwealth University developed WorkWORLD software, which allows one to compare what happens to an individual's net income (defined as an individual's gross income plus noncash subsidies minus taxes and medical and work expenses) as earnings levels change under current law and when work incentives are changed.

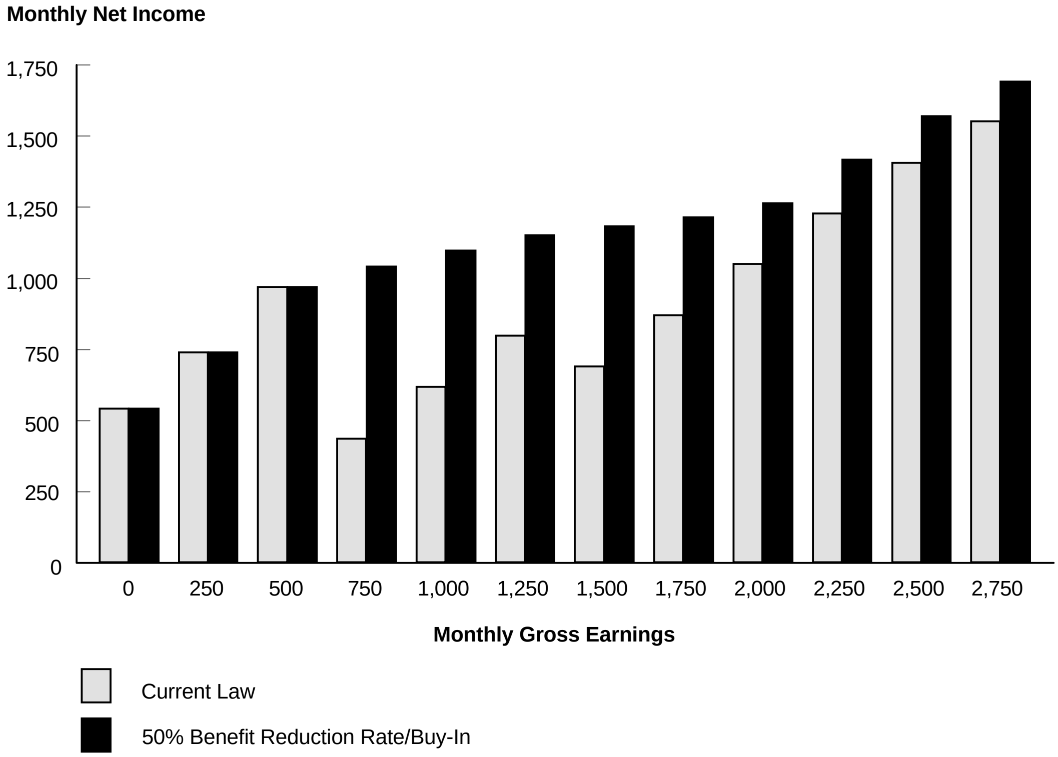
increase. The first "income cliff" occurs when a person loses all of his or her cash benefits because countable earnings are above $500 a month and the trial work and grace periods have ended. A second income cliff may occur if Medicare is purchased when premium-free Medicare benefits are exhausted. Figure 1 also illustrates what happens to net income when a tax credit is combined with a Medicare buy-in that scales premiums to earnings. In this particular example, although the tax credit may cushion the impact of the drop in net income caused by loss of benefits, it does not eliminate the entire drop. However, as figure 2 shows, this income cliff is eliminated when benefits are reduced $1 for every $2 of earnings above SGA.

Figure 1: Comparison of Net Income for DI Beneficiaries Under Current Law and Under Proposed Tax Credit and Sliding Scale Medicare Buy-In



Source: Employment Support Institute, Virginia Commonwealth University.

Figure 2: Comparison of Net Income for DI Beneficiaries Under Current Law and Under Proposed 50-Percent Benefit Reduction Rate and Sliding Scale Medicare Buy-In



Source: Employment Support Institute, Virginia Commonwealth University.

Net Effect of Proposals on Work Effort and Program Costs Is Unknown

Because there are complex interactions between earnings and benefits, changing the work incentives may or may not increase the work effort of current beneficiaries, depending on their behavior in response to the type of change and their capacity for work and earnings. But, even if the changes in the work incentives increase the work effort of the current beneficiaries, a net increase in work effort may not be achieved. This point is emphasized by economists who have noted that improving the work incentives may make the program attractive to those not currently in it.[9]

[9]See Hillary Williamson Hoynes and Robert Moffitt, "The Effectiveness of Financial Work Incentives in Social Security Disability Insurance and Supplemental Security Income: Lessons From Other Transfer Programs," in Disability, Work, and Cash Benefits, edited by Jerry L. Mashaw, Virginia Reno, Richard V. Burkhauser, and Monroe Berkowitz (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1996) and Hillary Williamson Hoynes and Robert Moffitt, "Tax Rates and Work Incentives in the Social Security Disability Insurance Program: Current Law and Alternative Reforms," May 1997, unpublished.

Allowing people to keep more of their earnings would make the program more generous and could cause people who are currently not in the program to enter it. Such an entry effect could reduce overall work effort because those individuals not in the program could reduce their work effort in order to become eligible for benefits. Moreover, improving the work incentives could also keep some in the program who might otherwise have left. Allowing people to keep more of their earnings would also mean that they would not leave the program, as they once did, for a given level of earnings. Such a decrease in this exit rate could reduce overall work effort because people on the disability rolls tend to work less than people off the rolls. The extent to which increased entry occurs and decreased exit occurs will affect how expensive these changes could be in terms of program costs.

However, determining the effectiveness of any of these proposed policies in increasing work effort and reducing caseloads requires that major gaps in research be filled. The economists considered entry and exit effects in their analysis by using economic theory and numerical simulations of how net income (earnings plus benefits plus earnings subsidies) is affected when individuals work for different numbers of hours at different wage rates. But the economists were not able to simulate changes in work effort in response to program changes because that would require information that is not currently available from the literature. Such information would measure how beneficiaries' work efforts change in response to changes in income, including the value of noncash benefits, resulting from program changes.

The costs of the proposed reforms are difficult to estimate with certainty because of the lack of information on entry and exit effects. SSA has tried to account for potential entry and exit effects when estimating the cost of various proposed reforms. But the agency has noted that such estimates are subject to significant uncertainty because of the lack of information on changes in work effort.

Mr. Chairman, this concludes my prepared statement. At this time, I will be happy to answer any questions you or the other Subcommittee Members may have.

Related GAO Products

Social Security: Disability Programs Lag in Promoting Return to Work (GAO/HEHS-97-46, Mar. 17, 1997).

People With Disabilities: Federal Programs Could Work Together More Efficiently to Promote Employment (GAO/HEHS-96-126, Sept. 3, 1996).

SSA Disability: Return-to-Work Strategies From Other Systems May Improve Federal Programs (GAO/HEHS-96-133, July 11, 1996).

Social Security: Disability Programs Lag in Promoting Return to Work (GAO/T-HEHS-96-147, June 5, 1996).

SSA Disability: Program Redesign Necessary to Encourage Return to Work (GAO/HEHS-96-62, Apr. 24, 1996).

PASS Program: SSA Work Incentive for Disabled Beneficiaries Poorly Managed (GAO/HEHS-96-51, Feb. 28, 1996).

Social Security Disability: Management Action and Program Redesign Needed to Address Long-Standing Problems (GAO/T-HEHS-95-233, Aug. 3, 1995).

Supplemental Security Income: Growth and Changes in Recipient Population Call for Reexamining Program (GAO/HEHS-95-137, July 7, 1995).

Disability Insurance: Broader Management Focus Needed to Better Control Caseload (GAO/T-HEHS-95-164, May 23, 1995).

Social Security: Federal Disability Programs Face Major Issues (GAO/T-HEHS-95-97, Mar. 2, 1995).

Social Security: Disability Rolls Keep Growing, While Explanations Remain Elusive (GAO/HEHS-94-34, Feb. 8, 1994).

Vocational Rehabilitation: Evidence for Federal Program's Effectiveness Is Mixed (GAO/PEMD-93-19, Aug. 27, 1993).

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