2. DISABILITY POLICY

Saving Disability Insurance with the First Reforms in a Generation

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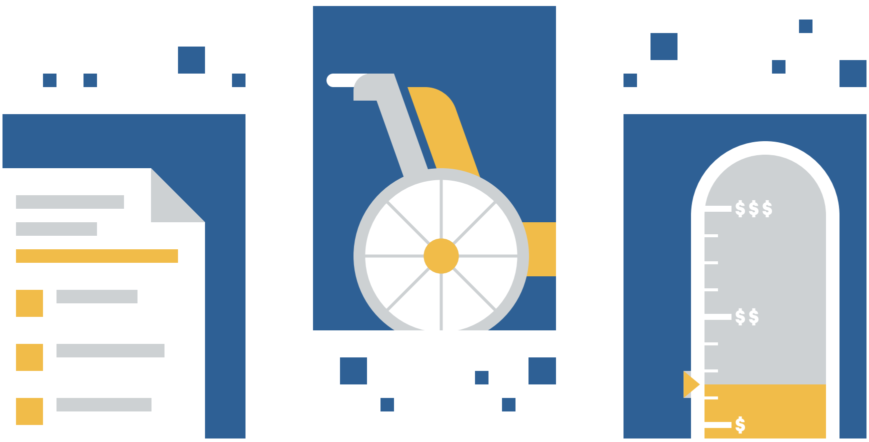

For 150 million workers in the American labor force, the Social Security Disability Insurance (SSDI) Program offers a critical backstop that provides income support if a worker cannot remain employed due to a medical impairment. Through payroll taxes, the American workforce contributes to this government insurance system that mitigates the consequences of long-term disability on employment. As of 2019, the SSDI program has 11 million beneficiaries and costs $140 billion per year, and it remains available as a form of insurance for the millions of workers in the contemporary American labor force. Given its size and scope, the program is often the center of major policy debates about the federal budget and how to best deliver anti-poverty services while encouraging employment.

ISSUE BACKGROUND

In 2016, for the first time since 1983, one of the trust funds that support the Social Security program was facing a shortfall in funding. The shortfall could have prevented the timely and complete payment of anticipated benefits. Actuaries projected that the SSDI Trust Fund would run out of money by the end of the year. If that had happened, the program would be solely funded each year based on the revenues generated, a challenge given the demographics of the program suggest it needed more funding in the near-term. By some estimates, if Congress and the president had not addressed the funding shortfall, benefits would have been reduced by about 20 percent.[1]

Several key factors contributed to the funding shortfall, chief among them that the program now covered more women in the labor force. However, there are other factors that added to increased costs, such as improper payments, high administrative costs, and a lack of innovation. With numerous critics of the SSDI program from across the political spectrum, the run-up to 2016 was an auspicious time to look toward SSDI reform—especially given the need to address the funding crisis while balancing partisan goals, improving administrative effectiveness by reducing improper payments, and strengthening the overall program structure.

Congress took the first step by sending a signal about how it would address the funding shortfall. In January 2015, the U.S. House of Representatives included a directive in the rules that guide the legislative chamber's operations requiring the body to meet certain conditions. Many members of Congress did not understand that Social Security is composed of two distinct trust funds—one that covers the retirement program (Old-Age and Survivors Insurance) and one that covers disability insurance. The House passed a set of rules that prevented simply transferring money from the retirement trust fund to the disability trust fund, without also including policies that would improve long-term balance between revenues and expenditures.

This technical requirement added to the House rules was a marker set by Republicans; they wanted to achieve efficiencies in program expenditures in exchange for addressing the funding solvency. It was also a partisan maneuver by Republicans, opposed by many Democrats, that created a backlash from disability groups who opposed larger reforms to the program that could result in reduced payments for beneficiaries. The action created a commitment mechanism for House Republicans that would require them to make a serious legislative push toward making reforms to Social Security that would have a meaningful fiscal effect.

Following the House rule, the White House weighed in on a preferred approach to addressing the funding shortfall as part of its annual budget submission to Congress. The president's fiscal year 2016 budget proposal declared that the federal government needed a politically acceptable plan to address the funding shortfall within the current fiscal year. The administration proposed a temporary fix, transferring money from another part of Social Security to fill in the gap.[2] The proposal recognized the approach that Congress had used previously to address funding shortfalls. The White House's budget proposal also included several small reforms to modify the program that would generate budget savings in line with the expectation of the initial congressional actions on the topic.

Both Republicans and Democrats in Congress as well as the executive branch acknowledged the necessity and time sensitivity for addressing the funding shortfall, which was a signal of consensus on the core problem. But how to go about fixing the shortfall required additional dialogue.

Partisan goals for reform

Not surprisingly, Republicans and Democrats had overlapping and diverging goals in considering the financial sustainability of disability insurance. In the House, then-Social Security Subcommittee Chairman Sam Johnson laid out four goals that Republicans wanted to achieve when reforming the SSDI program:

1. Ensure benefits continue to be paid to individuals with disabilities and their family members who also rely on them;

2. Prevent a 20 percent across-the-board benefit cut;

3. Make the SSDI program work better; and

4. Promote opportunity for those trying to return to work.

These goals provided little in the way of specificity, but House Republicans proposed multiple bills that strategically advanced the position. Additionally, at the beginning of the 114th Congress, House Republicans made it explicit in the rules package that improving the financial outlook for the combined Old-Age and Survivors Insurance and SSDI trust fund was a goal of theirs as well.

On the other side of the aisle, congressional Democrats and the White House also had well-defined goals:

1. Ensure that the SSDI program remains on solid financial footing; and

2. Prevent any unnecessary programmatic changes that may harm individuals with disabilities or their families.

Improper payments

Improper payments arise when individuals are either paid too much or too little based on their eligibility and history of earnings. From the beneficiary's perspective, the SSDI program's rules and reporting requirements can be confusing, and it is not clear how large benefits should be in a given time period. From a government perspective, there are clear rules used to calculate benefits—rules that beneficiaries must legally follow.

Both Republican and Democratic staff of the House Ways and Means Committee had long expressed concerns about the high level of improper payments to beneficiaries on the SSDI program.[3] As a consequence, and due to a policy of tracking such payments, the Social Security Administration could determine the general causes that contributed to a lack of knowledge about real-time earnings from beneficiaries and administrative computational errors that affected calculated benefits.[4]

The practical and political consequences of improper payments are significant. If a beneficiary receives overpayments for an extended period, it is possible he or she could receive tens of thousands of dollars in improper benefits that were not legally permissible. For a beneficiary with limited earnings or assets, finding out that he or she owes tens of thousands of dollars back to the federal government presents a severe financial burden for that person and his or her family.

Politically, some Republicans thought that overpayments could also discourage beneficiaries from attempting to return to work. The work-incentive rules in the program are incredibly complex, and it can be difficult for an individual to understand how and when he or she can work. Against the backdrop of possible financial repercussions for overpayments, SSDI beneficiaries often decide that it is not worthwhile to return to work.[5]

Program structure

As noted above, the rules for implementing the SSDI program are complex. Congressional Republicans perceived that the structure of the SSDI program discouraged beneficiaries from returning to work. One rule, for example, establishes a period of time in which beneficiaries can begin to work—the trial work period. During this period, beneficiaries begin receiving some incentives when they cross an $850-a-month threshold; for a defined time period, the program does not reduce disability benefits to compensate for newly earned income. A separate rule establishes a threshold at which the program deems an individual back in the workforce for “substantial gainful employment” and therefore no longer eligible to receive SSDI benefits. This level begins at $1,080 of earnings per month.

There are two main reasons why Republicans thought that the trial work period and the substantial gainful employment rules discouraged work. First, individuals with disabilities face a difficult time obtaining and sustaining costly health insurance; the SSDI benefits can obviate the cost of health insurance because the program’s benefits are eligible for Medicare. Second, some qualitative information suggests that beneficiaries are concerned they will be assessed overpayments if they work too much.[6] Thus, Republicans said that these issues, combined with the complexities of return-to-work incentive programs, drove down beneficiaries’ work participation rates.

Democrats also long acknowledged the challenges with returning to work for program beneficiaries, but that knowledge was relatively limited about how to encourage such approaches. Both Republicans and Democrats agreed that improving recipients’ work participation and reducing overpayments were laudable goals. However, there was disagreement over how best to achieve those goals.

EVIDENCE AVAILABILITY

With clear political goals and the issues well-framed for consideration, the White House and Congress could consider the body of evidence to determine a consensus-based approach to move forward in addressing the SSDI program’s future. Fortunately, to support these policy discussions, the Social Security Administration had a vast amount of administrative data, or information collected through the course of implementing the program, that could be readily analyzed because they were well-organized and high-quality data. The agency also funded a series of demonstration projects to test out new ideas and potential policy options for consideration over the prior decade, though with mixed results.

Evidence about program characteristics and improper payments

All this capability was available to support the political and policy debates about potential reforms. Much of the overarching program background and framing was summarized in a report released by the White House in July 2015, with the goal of focusing public and political attention on the need to address the funding shortfall.[7] The descriptive statistics and trends provided in the report about the program's beneficiaries were intended to characterize how the program works, who the program serves, and why benefits only address a portion of beneficiaries' pre-disability earnings.[8] The report also identified that perceptions of fraud were an issue the program faces, though in practice a rare occurrence.[9]

Evidence about program incentives

In Congress, committee staff spent six months working with the Social Security Administration to develop a better understanding of the characteristics of individuals earnings and the challenges they faced, as well as the administrative challenges to reducing complexity and improving incentives. During this time, congressional and agency staff analyzed administrative data and developed new insights, including that overpayments in a related program—Supplemental Security Income (SSI)—were typically much smaller, even though SSI program has more beneficiaries. SSI beneficiaries also typically saw higher work participation rates than the SSDI program. Based on the information at hand, Republican staff concluded that the difference in work rates was likely due to a combination of beneficiaries' fear of losing health insurance, fear of overpayments, and a sharp disincentive to work embedded in rules of the SSDI program.

Looking at the same data analysis, Democratic staff in Congress generally argued that earnings reported by program participants were an accurate reflection of work capabilities. This perspective was not necessarily consistent across the Democratic field, however. A former economist at the White House noted several years prior that "labor supply disincentives are inherent in any transfer program with imperfect screening for need."[10] In other words, without perfect information about how to assess individual needs of beneficiaries in the workforce, there will likely be cases where some beneficiaries could reasonably return to work.

Past demonstration projects to test innovations

Parts of this collective knowledge and the perceptions about incentives were based on studies that Congress mandated in 1999, called Ticket to Work and the Benefit Offset National Demonstration. Both projects have been criticized for being unsuccessful at achieving the goal of helping beneficiaries return to work.[11]

Ticket to Work aimed to provide some program beneficiaries with the ability to join a network for employment supports and to have third-party providers support efforts to improve earnings and employment. Study results were disappointing as most who were eligible never sought to use the services; thus, it had little impact on SSDI outcomes of interest.

The Benefit Offset National Demonstration sought to test whether providing beneficiaries with better information about benefits in addition to slight changes in the rules would increase the likelihood of individuals returning to work. The initial results from the study were underwhelming and suggested the additional services did not increase earnings for beneficiaries.[12]

A separate study looking at mental health disorders and their effects on returning to work; concluded that beneficiaries often have insufficient access to services and treatments. Thus, the conditions themselves impede returning to work.[13] But when those with mental health disorders do return to work, beneficiaries are more likely to have earnings, though not statistically more likely to leave the program.[14] At the time, long-term follow-up information was not available from that study, leaving a vast amount of uncertainty about whether the odds of employment truly improved for the longer time frame policymakers were interested in understanding.

This vast array of information, including past experimental evaluations, descriptive statistics, and on-demand data-analysis capabilities, was available to support policymakers in 2015 to develop a consensus solution to address the broader funding dilemma for the SSDI program.

EVIDENCE USE

When Congress and the White House were considering the SSDI reforms as part of the Bipartisan Budget Act of 2015, the application of evidence focused on four key areas: (1) clarifying program rules, (2) incentivizing beneficiaries to return to work, (3) ensuring funding was available to sustain current benefits, and (4) filling knowledge gaps for future reforms. Evidence served as a foundation for Republican and Democratic staff in bridging political divides about developing a solution for proposed disability reforms.

Applying evidence to reduce overpayments

Evidence in the form of descriptive statistics and trend analysis provided by the Social Security Administration offered insights about the need for strategies to reduce overpayments. Both Republican and Democratic staff in Congress, noting the relative complexity of the SSDI program versus SSI, agreed that some simplifications in rules were well justified.

Making the program administratively simpler and more straightforward for the beneficiary to understand was one strategy to reduce overpayments based on lessons learned in other programs. Congressional policymakers translated this goal into a strategy to modify how the program counted wages to determine benefit payments. Prior to the Bipartisan Budget Act of 2015, the program counted wages at the point in time when they were *earned*, not when they were paid. Changing the default for how this calculation occurred meant beneficiaries and caseworkers could use paychecks to validate and verify information.

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Another change to reduce the administrative complexity of the program was a new approach for either estimating or imputing wage data online. The SSI program already used this feature, which was not previously allowed for the SSDI program. By making the small change to the point in time at which earnings are determined (earned versus paid), the estimation of earnings was also possible. The need for this small policy reform was informed by acknowledged gaps in data quality from self-reported data, which had to be addressed in order to reduce potential inadvertent overpayments.

Encouraging beneficiaries to return to work

Despite past research and demonstration projects aimed at most effectively encouraging beneficiaries to return to work, policymakers faced an array of uncertainty about how to change the rules to do so. This was an area of strong disagreement between Republicans and Democrats, especially when it came to acknowledging how much the administrative program disincentivized work through the "cliff effect."

Without sufficient information about how to inform this decision, policymakers still had to take the best action possible. Republican congressional staff favored an approach called a "benefit offset," which credits beneficiaries for a certain period or for a certain portion of their earnings, ensuring that if they return to work, the program does not immediately deem them ineligible. Democratic staff perceived a benefit offset could unfairly harm individuals who were working more than the offset, and therefore it would have some negative consequences for current beneficiaries. Using the analysis provided by the Social Security Administration, congressional staff concluded the typical wage for a working individual on disability insurance was one that maintained a critical threshold.

Congressional staff on both sides of the aisle viewed this analysis as vindication for their respective views. For Republicans, the result of the analysis suggested individuals were keeping earnings just below this threshold because the beneficiaries did not understand the work incentives, were afraid of receiving overpayments, or did not want to risk losing health insurance provided by the program. Separately, Democratic staff concluded that the threshold was below "substantial gainful employment," and, therefore, individuals were clearly working at their full capacity.

Despite the disagreements about how to interpret the information, both Republicans and Democrats agreed about the need to ensure individuals were able to work at their full capacity. In this case, instead of modifying the rules with vast uncertainty, policymakers opted to test different approaches to learn more about what effect such a benefit offset proposal would have on individuals. The law included direction for the Social Security Administration to develop and launch a targeted pilot project and evaluation to inform future efforts to reform the program.

Reallocating funding to sustain benefits

Since the original issue at hand, which instigated the need for program reform, was a disparity between revenue and expenditures, Congress and the White House quickly agreed that fulfilling the reallocation of funds from one part of Social Security to another was desirable and unavoidable in the near-term. This goal was, in part, fulfilled because of the availability of an extensive amount of information about program participant characteristics made available by the agency, stakeholders, and even White House documents.[15] For example, one analysis highlighted the number of beneficiaries in each state, their average earnings prior to entering the program, and the amount they received in insurance payments as a way to highlight the geographic distribution of the participants in the program as well as the fact that individuals receive only a portion of their pre-program earnings through the insurance payments.[16]

With the framing about the need for benefits well established, policymakers quickly agreed on a financing solution that was contingent on the other reforms. The consensus reallocation was based on the proposal developed by the White House and was consistent with the requirements built into the controversial House rules package.[17]

Preparing for future reforms

Finally, policymakers in both the White House and Congress recognized the need to continue learning about how to improve the program. While the Social Security Administration conducted past demonstrations and evaluations, the agency's ability to consistently test new ideas was limited based on the way the program's law was written.[18] Accepting a proposal from the White House—which was a priority for the Obama administration in negotiating reforms—policymakers agreed to renew this ability to test new ideas, albeit only for a limited period.[19]

While not discussed here, the Bipartisan Budget Act of 2015 also included numerous other reforms for different parts of Social Security that were similarly informed by available evidence or program insights from relevant analyses. These additional reforms included changing medical-review requirements for cases, expanding fraud investigation capabilities, changing the rules about certain credible sources of medical records to justify claims, increasing penalties for fraud or errors, enabling data matching to electronic payroll providers, and closing certain loopholes in the programs. While the available evidence was not perfect, the important policy debate highlights both that policymakers are eager to use the best information available and that they must make decisions despite uncertainty, decisions that aim to achieve political goals and program improvements.

LESSONS

- ***Analysis of administrative records was foundational.*** At multiple points in the policy debates about how to proceed in decision-making, analysis of existing administrative data was incredibly informative in helping policymakers understand the starting point and even the bounds of potential reforms. Without these data collected by the government, policymakers would remain uncertain about how to develop solutions and how to agree on them.

- ***The lack of impact evaluations limited action.*** Because the Social Security Administration had limited success in completing impact evaluations for the SSDI program and in determining various interventions or reforms for consideration, policymakers were constrained in how much they could act. While some could view this as a beneficial feature for those who argue against any program change, the lack of information also prevented bipartisan consensus on potential reforms that could have drastically improved beneficiaries' quality of life.

- ***Existing evidence did not eliminate political value systems.*** As the example of the program incentives policy change highlights, when faced with uncertainty policymakers still applied political value systems when making a final decision. In this case, they decided not to take action until further information was available because of the political disagreement. But the value systems also enabled and supported the generation of new knowledge with the goal of using that evidence in future reforms.

- ***Staff served as critical decision-makers in support of elected or appointed policymakers.*** During the policy discussions for potential reforms, congressional staff and senior appointees at the White House and the Social Security Administration facilitated the dialogue about reforms and engaged in the effort to use evidence. Their collective advice resulted in recommendations to elected members of Congress or the president in determining whether to pass and sign the Bipartisan Budget Act of 2015.

- ***The use of evidence was iterative and varied.*** Analysts developed some evidence during the debates about policy reforms, rather than relying solely on evidence that existed prior to the discussions. Because of this, policymakers had a portfolio of evidence available to them that included statistics, performance metrics, implementation studies, and some impact evaluations. ■

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