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Reforming the Disability Insurance Program Should Start Now

Long-Term Reform Requires Structural Change

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More than 12 million Americans received benefits from the Social Security Disability Insurance (DI) program in 2015. An underlying structural problem—DI pays out more benefits than it collects in revenues—places the program under considerable fiscal strain. The program continues to pay full benefits because it can draw on support from the DI trust fund, an accounting mechanism that records the balance between money coming in and money going out. When that fund is exhausted, either benefits will be reduced or Congress will have to shift funds from another source, such as the Old-Age and Survivors Insurance (OASI) trust fund. In either case, DI's long-term financial stability is in jeopardy, and policymakers need to act soon to avert these scenarios.

To address the program's financial unsustainability, policymakers can pursue three types of reforms. First, move money from the OASI trust fund to the DI trust fund. When the DI trust fund neared exhaustion two years ago, Congress saved it by passing the Bipartisan Budget Act of 2015 and transferred money from the OASI trust fund to the DI trust fund to ensure full benefits would be paid until 2022 (now estimated to last until 2023).[1] A related approach is to reallocate the different Social Security tax rates—employees and employers each currently pay a 5.015 percent OASI tax rate and a 1.185 percent DI tax rate—but such a reallocation would not address the program's structural issues and would make the OASI program worse off. This approach is only a band-aid: It does not address fundamental imbalances in the program, and it makes the OASI trust fund worse off.

A second approach involves adjusting benefit and revenue formulas by, for example, making benefits less generous and increasing tax rates. The Social Security tax rates could be increased, the maximum amount to which workers are taxed ($127,200 in 2017) could be increased, or the benefit formula could be changed to lower benefit amounts (Congressional Budget Office 2012). Such formulaic changes can balance the program in the short term, but they do not address fundamental issues with the program or necessarily make it sustainable in the long term.

The third approach reforms the program by changing the definition of disability (Jacobson et al. 2016), adjusting certain eligibility criteria, modifying application and review processes (Fichtner and Seligman 2016), or creating a model of transitional benefits (Hildred et al. 2016). Other possibilities include extending Medicare coverage for people who return to the workforce (DI beneficiaries receive Medicare coverage after a two-year waiting period), improving initial application and case reexamination, or using other programs for support (Lindner, Loprest, and Schwabish 2016). Such reforms could put DI on a financially sustainable path for the long run and provide the financial and health care support that people with disabilities need. Such reforms can also promote and encourage work among people with disabilities.

Long-term reform requires structural change, and in-depth research and analysis. Enacting a policy that, say, changes the definition of disability requires testing. For Social Security, that testing would be demonstration or pilot programs (Ben-Shalom et al. 2017). In demonstration programs, people participate in the experimental program so researchers can understand how the reform would affect their behavior, benefits, and outcomes. But these demonstrations take time. They need to be designed and put in place, and their outcomes must be analyzed. With the DI trust fund projected to reach exhaustion in 2023, policymakers are wasting valuable time.

President Trump’s 2018 Budget Proposal

There appears to be an appetite for demonstration projects. President Trump’s 2018 budget proposal includes $500 million over the first five years to “expand demonstration authority to allow the administration to test new program rules and processes and require mandatory participation by program applicants and beneficiaries” (Office of Management and Budget 2017). Under current law, the Social Security Administration cannot require universal participation, and without mandating that participation, some demonstrations cannot be adequately evaluated. Questions remain as to what type of and how many demonstrations will be put in place, whether the funding level is correct, and whether the demonstrations will yield results that can be expanded to the entire program.

Over the next 10 years, the president’s budget estimates total cost savings will exceed $72 billion. The largest of those savings—more than $49 billion between 2023 and 2027—come from modifying the program to “increase labor force participation” among DI participants:

> The Budget proposes to reform disability insurance programs to promote greater LFP [labor force participation]. Currently, people with disabilities have low rates of LFP—20 percent—which is less than a third of the LFP rate of the overall working-age population. Disability benefits are essential for workers with long-term and permanent disabilities who are unable to work. Program integrity efforts are crucial to ensure only participants who remain eligible continue receiving benefits. The greatest waste is when the Government is not doing enough to enable individuals to remain in the labor force—incentives and pathways to recover from a temporary disability and return to work. These disability insurance programs should be helping people to stay in the workforce and be self-sufficient.(Office of Management and Budget 2017, 11)

How such savings will be achieved will depend on structural reforms that can encourage workers with disabilities to stay in or reenter the labor force. But to understand such structural reforms, demonstration projects—which take time to design and implement—are needed.

Labor Force Participation among Workers with Disabilities

Millions of people lose their jobs or leave the labor force each year because of significant health conditions (Hollenbeck 2015). A few DI participants work. Mamun and coauthors (2011) found that the employment rate of DI participants was 12 percent in 2007, and Liu and Stapleton (2011) found that about 4 percent of new DI beneficiaries left the program for work over a 10-year period, about half of who returned DI; further, slightly more than a quarter who left the program for work were reenrolled in the program after 10 years.

Several methods and models may encourage workers with disabilities to participate in the labor force. One model is to reduce benefits to a point that the program is no longer as attractive to potential participants. Another model would be to process DI applications more quickly, an effort the Social Security Administration has pursued, but that has been hampered by budget cuts (Romig 2016), and that might facilitate work among applicants. Another model is to move to a partial disability system, such as the one used by the US Department of Veterans Affairs (McGeary et al. 2007). Partial disability systems use a schedule to calculate a "percent disabled" rating for each person, which is used to determine benefit receipt. Evidence from other countries suggests such programs are difficult to implement consistently and would probably swell the rolls with people who qualify with less severe disabilities (Congressional Budget Office 2012; Wittenberg et al. 2012). Other options could provide subsidies or tax credits to employers (e.g., the Work Opportunity Tax Credit) that hire disadvantaged workers (Hamersma 2005; Liebman 2015). And other reforms could create workforce development programs (e.g., the Workforce Innovation and Opportunity Act) to engage employers with training, education, and economic development in their local areas (Spaulding and Martin-Caughey 2015).

Demonstration Projects Are Needed for Structural Reforms

Designing and implementing demonstration projects are the best way to understand how structural reforms will affect disabled workers and their families, as well as the DI program's finances. Demonstration projects are not new. The Benefit Offset National Demonstration (BOND) project reduces a DI participant's benefits if he or she earns above a threshold known as the "substantial gainful activity" (SGA) amount (in 2017, the SGA is $14,040 for a beneficiary who is not blind and $23,400 if the beneficiary's disability is blindness). Under current rules, DI participants can work, but they can lose their benefit eligibility if they earn above the SGA amount. The nearly 13,000 participants in the BOND project, however, have their benefits reduced $1 for every $2 earned above the threshold (Derr et al.

2015). This scale removes the work "cliff" and enables DI participants to earn above the SGA amount and keep some of their DI benefits.

The BOND experiment was a major undertaking and took years to design, implement, and evaluate. The Social Security Administration awarded the final BOND contract in December 2009 at an estimated $121 million (Social Security Administration 2016). Start-up tasks were completed in 2010, and a three-month pilot began in January 2011 (Derr et al. 2015).[2] Full implementation took place in late April 2011, and the demonstration will end in September 2017, with a final report due in spring 2018. From contract award to final report, the BOND program will take nearly nine years. If policymakers believe the BOND project is a model for the DI program, they should add additional time to draft legislative language and debate the bill before voting on the policy.

The BOND project adjusts the DI benefit formula so participants can work and still receive their benefits. There are other ways to encourage work among people with disabilities. The Ticket to Work (TTW) program, which began in 2000, gives beneficiaries incentives to obtain work support (e.g., job search and training assistance) and health-related services (e.g., counseling and occupational therapy). The program also provides financial incentives to "employment networks" (an entity, public or private, that provides or coordinates services for DI beneficiaries) that can provide needed services to program participants.[3] Early waves of the demonstration did not enroll many participants, though changes in rules and regulations may have increased the number of participants in later waves. Although few people participate in TTW, those who do have better employment outcomes and are more likely to leave DI than those who did not participate (Livermore et al. 2013). And yet, rigorous analysis has found little evidence that TTW has had a significant impact on employment (Stapleton et al. 2008). Livermore and coauthors (2013, 21) conclude that "the research evidence is not strong enough to clearly indicate what types of programs will work effectively—and for which beneficiaries." Thus, after more than a decade of TTW implementation and evaluation, it is *still* unclear whether TTW positively affects DI participants and whether it is a model for the program as a whole.

Another way to encourage work among people with disabilities is to urge employers to support workers with disabilities, especially at the early stages in their disability when interventions might be most effective (Liebman 2015). The Centers of Occupational Health and Education (COHE) program in Washington State is a potential model for that approach. It pulls together service providers, health care providers, employers, and labor organizations (Stapleton and Christian 2016).[4] The program was established by the state-run workers' compensation (WC) program in Washington to facilitate collaboration across these areas and reduce the challenges people face in deciding between work and nonwork. Pilot tests that began in the early 2000s showed that COHE substantially reduced disability and medical costs and lost work time and long-term disability spells for people who made workers' compensation claims. Furthermore, COHE paid for itself by lowering workers' compensation expenditures (Wickizer et al. 2011) and reduced the probability of entering the DI program 26 percent over the next eight years after injury (Franklin et al. 2015). The biggest difference between COHE and the BOND and TTW demonstrations is that COHE interventions reach people before they start receiving DI benefits, while BOND and TTW focus on current DI beneficiaries.

Adopting a COHE-type model for the rest of the nation would not necessarily produce the same successes and cost savings. The WC system in Washington is highly integrated, as Stapleton and Christian (2016, 2) note: "Except in the case of self-insured employers, a single entity, the state's Department of Labor and Industries, is responsible for managing WC medical and wage-replacement benefits, and all benefits are financed by employer premiums. Furthermore, the WC system provides a number of incentives to employers to support return-to-work effort." Other characteristics (e.g., Washington State's economy, distribution of disability types, and access to the health care system) may mean the COHE model may not be replicable elsewhere. Further, WC programs vary by state and differ from the DI program. For example, the DI program has a waiting period for benefits, and WC programs only cover job-related injuries and not necessarily chronic conditions.

Another complication in testing and implementing a COHE-type model—or any model that relies on partnerships between employers and health care providers—is the ongoing debates and legislation to repeal and replace the Affordable Care Act. It is not clear how the Affordable Care Act fully interacts with DI, but changes to the DI program might affect how and whether health practitioners provide care (Abrams et al. 2015), which could affect reforms to DI and even demonstration test programs.

How Will the Budget Affect People with Disabilities?

Critics of the DI program have called it wasteful, but beneficiaries surely would rather be healthy and work rather than live with debilitating back pain or multiple sclerosis (Favreault and Schwabish 2016). Some people with disabilities can work part time but are constrained by DI program rules. Others simply cannot work. Finding ways to help these workers find job opportunities while providing them the support they need is worthwhile.

To reform the program so it provides workers with disabilities and their families the support they need and so it exists on a more solid financial footing requires fundamental, structural change. Identifying changes that balance program costs and revenues while helping people with disabilities who can work get back to work and adequately supporting those who cannot work requires additional experimentation, study, and analysis.

Notes

1. "Congress Passes H.R. 1314, the Bipartisan Budget Act of 2015," Social Security Legislative Bulletin, November 3, 2015; "A Summary of the 2016 Annual Reports," Social Security Administration, Social Security and Medicare Boards of Trustees, accessed June 14, 2017. See also Social Security Administration (2016).
2. "What is BOND?" Social Security Administration, Benefit Offset National Demonstration, accessed June 14, 2017.
3. "Employment Networks (ENs)," Social Security Administration, Ticket to Work, accessed June 14, 2017.
4. "Centers of Occupational Health and Education (COHE)," Washington State Department of Labor and Industries, accessed June 14, 2017.

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Jonathan Schwabish is a senior fellow in the Income and Benefits Policy Center at the Urban Institute. He also specializes in data visualization and presentation design as a member of the communications team. His research agenda includes earnings and income inequality, immigration, disability insurance, retirement security, data measurement, and the Supplemental Nutrition Assistance Program.

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