



SSDI Reform: A New Benefit Structure to Encourage Work by Individuals with Disabilities

Jagadeesh Gokhale
September 8, 2014

With annual benefit payments projected to consistently exceed revenues, the Social Security Disability Insurance (SSDI) program will become insolvent in 2016. Apart from its financial problems, however, the program is structurally unsound: Its rules induce those who could work despite medical impairments to exit the labor force and apply for benefits. SSDI's application and approval procedures are lengthy, costly, and inefficient, often allowing those with residual work capabilities into the program. SSDI's rules trap claimants into permanently remaining idle or underemployed for fear of losing benefits and low-cost Medicare coverage. In view of the considerable and growing uncertainties involved in determining whether medical impairments imply inability to work, it would be advantageous to change SSDI's benefit structure: We should pay beneficiaries to work, if they can, rather than remain idle.

Disability is rarely all-or-nothing with individuals either capable of working or not but the law requires SSDI officials to make discrete "yes or no" decisions on allowances. Hence, some analysts are proposing a "partial-benefits-for-partial-disability" system that would permit beneficiaries to work *and* receive benefits. But such a system will also require a bureaucratic determination of each applicant's degree of work-disability – something inherently difficult for many types of medical impairments such as mental health, back pain, and so on. If benefit levels for disability grades are set too low or if adjudication errors abound, deserving applicants would be harmed. If benefits are too generous, yet more individuals with slight medical impairments may choose to apply. In view of SSDI's current struggles with "policy compliance," it's difficult to believe that system performance would improve under a partial benefits system.

Under current SSDI rules, benefit eligibility depends on proving that an applicant's medical impairment prevents earning at the Substantial Gainful Activity (SGA) level of \$1,070 per month for at least one year. It means applicants must exit the work force or, at least, reduce earnings to less than SGA. And continuation of benefits depends upon claimants' medical conditions remaining consistent with inability to work at or above SGA, again compelling claimants to remain idle or underemployed. Thus, work disincentives are integral to SSDI as currently constituted. Although studies have shown that up to 40 percent of SSDI claimants are work oriented – wishing, intending, and hoping to return to work to improve their living standards –

conventional wisdom holds that there is no way to achieve two goals simultaneously: Provide support to the disabled *and* maintain robust work incentives for claimants who are willing and able to work.

Fortunately, that conventional wisdom is wrong. There *is* a way of incentivizing work among SSDI claimants if SSDI's benefits are structured differently: Switched from paying claimants to remain idle to paying them to work. This could be accomplished simply by replacing the current trust fund (TF) benefit by a work-incentive benefit (WIB). The extent of the substitution of WIB for TF should be based on beneficiaries' observed earnings and calibrated so that more earnings yield a stronger boost to their total income.

The prospect of increasing incomes by more than earnings through work would induce SSDI claimants to re-enter the work force – but only if they can be assured of financial security: Those who cannot work must receive the full TF benefit and those who choose to work must be guaranteed full restoration of the TF benefit (reversing the switch to WIB) upon job separations from worsening medical conditions or deteriorating labor markets. Such a benefit substitution is likely to involve a very small budget cost – because WIB would be almost fully offset by reductions in TF and is not an additional benefit. And the cost would be positive *only if* beneficiaries work and contribute more to the economy.

The key advantage of introducing such a benefit structure is to divorce support for the disabled from their incentive to work and earn, if they can, despite their medical impairments. It would help many SSDI claimants to improve their living standards and gain from the social and psychological advantages of work engagement, self-determination, and economic independence. It would also be easy to administer and would require less policing for unlawful work activity by claimants. The larger earnings of SSDI claimants would increase payroll tax revenues and also increase their future Social Security retirement benefits. The WIB substitution is unlikely to induce significant additional entry into SSDI by those with medical impairments who continue to work today because the benefit design would confer an advantage to delaying the decision to apply to SSDI. Moreover, this system is likely to reduce “hidden unemployment” and increase the nation's productivity and output.

Jagadeesh Gokhale is a senior fellow at the Cato Institute.