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BACKGROUNDER

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Social Security Disability Insurance: Benefit Offsets Encourage Work—But Achieve Little to No Savings

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Abstract

The Social Security Disability Insurance (SSDI) program is headed toward insolvency before the end of 2016. Without congressional action, beneficiaries could see their benefits delayed or cut by nearly 20 percent. As Congress considers how to address the Social Security disability program's financing shortfall, options to encourage and facilitate increased labor force participation among work-capable individuals applying for and currently receiving benefits from the disability program have garnered particular attention in Congress. One of these options would seek to increase incentives for individuals who are currently in the program to work more and earn higher incomes by changing how much they are allowed to earn before they lose federal disability benefits. Also known as a benefit-offset policy, it would likely increase program costs by encouraging more individuals to enter the disability program and discouraging others from leaving the rolls. Broader reforms are necessary to ensure that benefits are sustainable and the program improves for its beneficiaries.

The Social Security Disability Insurance (SSDI) program is headed toward insolvency before the end of 2016. Without congressional action, beneficiaries will see their benefits delayed or cut by nearly 20 percent. To avoid delays or drastic and indiscriminate changes in benefits for some of America's most vulnerable program beneficiaries, Congress is considering several options to address the program's financing shortfall. One of those options is to adopt a national benefit-offset policy that would allow beneficiaries to work and earn more while retaining some or all of their benefits. The literature on the subject suggests that a national benefit-offset policy—that is,

Key Points

- Congress is considering reforms to Social Security Disability Insurance (SSDI) to stave off program insolvency before the end of 2016.
- Policymakers recognize that many individuals with disabilities want to participate in their communities through work, but current policy design discourages them from doing so.
- Several analysts have suggested that a benefit offset, allowing disability beneficiaries to earn above the monthly substantial gainful activity level without losing their cash benefits, would incentivize beneficiaries to return to work.
- Existing research suggests that a benefit offset would likely increase program costs by encouraging more individuals to enter the disability program and discouraging others from leaving the rolls.
- Congress should consider broader reforms that better align benefits and work conditions with individual needs and abilities in the way a needs-based period of disability would.

This paper, in its entirety, can be found at **http://report.heritage.org/bg3032**

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replacing the existing cutoff in benefits with a more gradual reduction as work and income rises—would encourage more work among disability insurance beneficiaries while increasing program costs. Adopting a benefit-offset policy alone is inadequate for addressing SSDI's financing shortfall, and might even prove counterproductive to improving the program's fiscal solvency. Broader reforms are necessary to ensure that benefits are sustainable and that the program improves for its beneficiaries.

Encouraging Work: An Appealing Policy Goal

As Congress considers how to address the Social Security disability program's financing shortfall, various options to encourage and facilitate increased labor force participation among work-capable individuals applying for and currently receiving benefits from the disability program have garnered particular attention in Congress. One of these options is to increase incentives for those who are currently in the program to work more and earn higher incomes by changing how much they are allowed to earn before they lose federal disability benefits.

Currently, disability insurance beneficiaries who earn more than $1,090 per month in 2015 ($1,820 for blind beneficiaries) are determined to be participating in substantial gainful activity (SGA) and will subsequently lose their cash benefits. The Social Security Administration (SSA) established the SGA level as an objective earnings test in 1958 to assess an individual's ability to perform substantial mental and physical work for pay (gainful activity) after earlier criteria assessing the energies, responsibilities, skills, hours, earnings, regularity, and related factors pertaining to the work performed resulted in inconsistent decisions.[1] Since 2001, the SGA level has grown with the national average wage index.[2] Notably, earnings from investment income are excluded from the SGA level—being a savvy investor is not considered substantial, gainful activity. There are two main exceptions to loss of benefits from earnings above the SGA level: (1) a trial work period (TWP) and (2) unsuccessful work attempts, which allow individuals to earn more than the SGA level for a limited time before losing their benefits.

A benefit offset alone is inadequate for addressing SSDI's financing shortfall, and might even prove counterproductive to improving the program's fiscal solvency.

Several analysts have suggested that a more generous benefit-offset policy, which would allow disability beneficiaries to earn above the SGA level without losing their cash benefits, would incentivize beneficiaries to work, resulting in better living conditions for those in the program, while generating program savings. In other words, analysts have suggested that providing some flexibility around the SGA level will promote work. A key assumption regarding the efficacy of a more generous offset policy to encourage work is that a substantial number of disability beneficiaries have marginal work capacity that goes unused due to poor federal program design. Instead of the current approach, which categorizes people as either completely disabled or not disabled, a benefit-offset policy recognizes that there is a broad continuum of disability along which beneficiaries' conditions fall.

A benefit-offset policy could also be structured to act as a partial disability policy, allowing individuals with disabilities to more easily move on and off the rolls, and sort themselves more effectively along a partial-benefit schedule in accordance with their own assessment of work capacity.

At Odds with Statutory Intent

The disability program was initially set up to provide insurance against a loss of income due to a disabling condition that renders an insured individual unable to support himself through work. To meet the statutory definition of disability, the applicant "must not be able to engage in any substantial gainful activity because of a medically-determinable physical or

1. Social Security Administration, "Disability Insurance: Titles II and XVI: Determining Whether Work Is Substantial Gainful Activity—Employees," SSR 83-33, http://www.socialsecurity.gov/OP_Home/rulings/di/03/SSR83-33-di-03.html (accessed June 29, 2015).
2. Social Security Administration, "Code of Federal Regulations: § 404.1574. Evaluation Guides if You Are an Employee," http://www.socialsecurity.gov/OP_Home/cfr20/404/404-1574.htm (accessed June 30, 2015).

mental impairment(s) that is expected to result in death, or that has lasted or is expected to last for a continuous period of at least 12 months." Allowing individuals on the disability program to work above the substantial gainful activity level for extended periods of time or indefinitely is at odds with the statutory intent of the current federal disability program.

Theoretical Effects

Allowing SSDI beneficiaries to earn more while experiencing only marginal reductions in their cash benefits is expected to improve beneficiary well-being by expanding choices. Beneficiaries can choose to work up to their capacity, increasing their incomes above the amount they receive in federal cash benefits while retaining valuable benefit protections should their work capacity or economic opportunities decline.

A more generous offset policy would only improve program sustainability if a sufficient number of individuals with disabilities who receive Social Security benefits moved off the rolls as a result of the policy change, thereby offsetting program spending increases that result from allowing individuals who work above the SGA level to retain certain levels of benefits. This could theoretically happen if individuals were hesitant to work above the SGA level for fear of losing valuable benefits. Given generous incentives in the current program design to allow individuals to test their ability to return to work, this effect is highly unlikely.

A benefit-offset policy could also lead to increased program spending if individuals receive federal cash benefits longer than if they moved off the rolls as soon as they earned at or above the SGA level, as is the case in theory under current policy. Moreover, a more generous offset policy could induce more individuals with disabilities to enter the Social Security disability program by making the program more attractive to those with partial work capacity.

This *Backgrounder* reviews relevant literature that assesses the effects of benefit offsets on beneficiary well-being and on program finances. While this review is by no means comprehensive, it seeks to provide Congress with a summary of relevant studies—chosen by reviewing the evidence and selecting the most recent studies that explore benefit-offset policies using different methodological approaches—to inform legislative decisions concerning whether the adoption of a benefit-offset policy in the U.S. could help to address the current SSDI financing shortfall.

Failure of the Ticket to Work Program

This is not the first time that Congress has shown interest in nudging individuals who are enrolled in the disability program to return to work. In 1999, Congress authorized the Ticket to Work program. The program is administered through local employment networks and state vocational rehabilitation agencies. Participating individuals receive workplace and vocational training from local providers to help them transition back into the workplace. Participants are also exempt from continuing disability reviews (the process by which the SSA verifies continued benefit eligibility) while participating in the program.

Despite direct assistance and incentives to participate in Ticket to Work, the program has a dismal participation rate: 0.4 percent of eligible ticket holders had signed on with an employment network as of 2012. Moreover, less than 1 percent of individuals leave the disability program to return to work in any given year. Oversight officials attribute the low participation in the Ticket to Work program to lack of knowledge and awareness of the program and fear of losing benefits once workforce reintegration is achieved.[3] A bigger issue is that the current program structure sets no clear expectation that individuals with marginal and temporary disabilities return to work. Other nations, notably Germany, Norway, and the U.K., have built-in incentives for individuals to return to work through focus on accommodations and by time-limiting benefits for certain populations. The proposed Protecting Social Security Disability Act of 2014, introduced by then-Senator Tom Coburn (R–OK), would grant time-limited benefits when recovery is expected for those on the rolls. It would also establish pilot projects to test early intervention efforts to help work-capable individuals with disabilities return to work before ever getting on the rolls.[4]

3. U.S. Government Accountability Office, "Social Security Disability: Ticket to Work Participation Has Increased, But Additional Oversight Needed," May 2011, p. 16, http://www.gao.gov/assets/320/318098.pdf (accessed April 10, 2014).

4. Protecting Social Security Disability Act of 2014, S. 3003, https://www.congress.gov/bill/113th-congress/senate-bill/3003 (accessed January 9, 2015).

The Social Security Administration also provides information services to educate disability recipients about workplace opportunities and to provide access to work incentives. These include Work Incentives Planning and Assistance (WIPA) projects, Work Incentive Seminar Events (WISE), and the Job Accommodation Network (JAN). Though there is no shortage of initiatives to return SSDI beneficiaries to work, such "back-to-work" programs have demonstrated only limited effectiveness. Other back-to-work programs implemented by the Social Security Administration have not been significantly effective in moving beneficiaries from the SSDI rolls back into the workforce, either.[5]

The Social Security BOND Program

The Social Security Administration is currently undertaking the Benefit Offset National Demonstration (BOND) program. BOND is structured as a random assignment test, meaning that a group of program participants is compared to a control group to assess whether the BOND program has statistically significant impacts on its target population. The project assesses impact in two phases: (1) How would a national benefit offset affect beneficiary earnings across the entire disability insurance population and affect other program outcomes, including the return to work rate and program costs? (2) How would a national offset affect those who use it? BOND began in 2009 and will run through 2017.

BOND replaces the substantial gainful activity "cash cliff" at which disability insurance beneficiaries risk losing their benefits with a benefit-offset "ramp," where every $2 in additional earnings result in a $1 reduction in benefits. Instead of losing 100 percent of their disability insurance cash benefits, BOND participants who earn more than the SGA level give up only $1 in benefits for every $2 in additional earnings.

Mathematica, the organization evaluating BOND, found no statistical evidence that BOND had any impact on total earnings in 2013. This result mirrors results found in other interim evaluations, including in 2011 and 2012. Moreover, Mathematica's researchers found no evidence that BOND induced more SSDI beneficiaries to earn more than the SGA level.

According to the researchers, these results suggest that a national benefit offset could increase program costs. "Without positive impacts on earnings, especially on the percentage of beneficiaries with earnings above [SGA], the benefit offset *will unambiguously increase total SSDI benefits paid* by allowing [program participants] who would earn more than [SGA] under current program rules to keep a portion of their benefits that they would otherwise lose under current rules."[6] (Emphasis added.)

The Norwegian Experience

Norway implemented a benefit-offset program in 2005. The program was restricted to individuals who were already in the disability-benefit pool by setting a retroactive eligibility date. Participants had to have joined the disability program one year before the benefit-offset policy's inception. This study is beneficial for exploring work effort and earnings as a result of the benefit-offset structure, but it provides no guidance concerning induced entry.

In the Norwegian benefit-offset program, benefits were reduced by approximately $0.60 for every $1 earned above the SGA level up to a maximum of 43 hours of work per week. Andreas Kostol and Magne Mogstad test the offset policy's effects on labor force participation, annual gross earnings, disability insurance (DI) benefits received and taxes paid, and exit from the DI program.

Kostol and Mogstad found that many Norwegian DI recipients are able to work.[7] They measured an increase in labor force participation of 8.5 percentage points among DI recipients age 18 to 49 in the

5. Jagadeesh Gokhale, "A New Approach to SSDI Reform," *Regulation* (Fall 2013), p. 3, http://object.cato.org/sites/cato.org/files/serials/files/regulation/2013/9/regv36n3-3n_0.pdf (accessed January 30, 2015).
6. David Wittenburg et al., "BOND Implementation and Evaluation Third-Year Snapshot of Earnings and Benefit Impacts for Stage 1," Mathematica Center for Studying Disability Policy, April 22, 2015, http://www.ssa.gov/disabilityresearch/documents/BONDS1Y3_Snapshot%20Rpt%20FINAL_042215_SSA.pdf (accessed May 14, 2015).
7. The study considered effects three years after the program was implemented (from 2005 to 2008), which coincides with the period leading up to the global recession. The researchers controlled for seasonality and excluded individuals who reside in counties that provide wage subsidies (including controlling for spill-over effects from other counties). The researchers found heterogeneity among the responses by individuals, notably with no impact from the benefit-offset policy on older DI beneficiaries.

treatment group. The total labor force participation rate in the control group was 3.4 percent. There was no evidence for any impact from the benefit-offset program on older DI beneficiaries. Moreover, increased work activity in the treatment group was strongest among individuals with high education levels and more labor market experience, and among participants living in areas characterized by low unemployment levels.[8]

It is quite possible that adopting a benefit-offset policy in the U.S. would fail to produce significant savings and could even lead to program spending increases.

The increase in labor force participation and earnings reduced benefit payments and increased tax receipts for a 3.5 percent to 5 percent reduction in DI program costs. As this relates to the U.S. context, it should be noted that the Norwegian disability insurance program provides more generous benefits than the U.S. program, and the incidence rate of benefit receipt is higher in Norway.

Results from the Norwegian case study should be considered with caution as to their application to the U.S. context because Norway appears to provide DI benefits to a more work-capable population than is the case in the U.S., and the researchers were unable to study rates of induced entry after the policy change took place. It is quite possible that adopting a similar policy in the U.S. would fail to produce significant savings and could even lead to program spending increases by expanding the pool of disability beneficiaries with substantial ability to work.

A Life-Cycle Model Approach

Hugo Benitez-Silva and two colleagues[9] evaluate likely effects of the $1 for $2 offset policy using a life-cycle model approach. The model predicts that under the offset policy, beneficiaries increase how much they work, but work mainly part time and temporarily; only a small portion are expected to exit the rolls. The model[10] predicts that the fraction of disability recipients who choose to work at any point in time during their disability-benefit receipt increases substantially, from 9.5 percent under current policy to 48.9 percent under the benefit offset. However, almost no individuals return to work full time, and most work for short periods. The model estimates that the average number of years worked while receiving SSDI benefits is less than three years.

As the benefit offset makes the SSDI program more generous, the life-cycle model predicts an increase in disability benefit applications of 2.2 percent, while disability rolls increase by 3.2 percent. These effects are due to induced entry and reduced exit. Benitez-Silva and his co-authors[11] estimate that after accounting for higher payroll tax contributions from more work being performed by disability beneficiaries, program costs would still increase on net by 5 percent.

The authors conclude that "[i]f the policy objective is to try to integrate disabled workers into the labor force at a reasonable cost, this could be a good policy, given the relatively small *induced entry effects* we predict. If the objective is to reduce the overall cost of the system by allowing disabled individuals to come back to work so that they eventually get off the rolls, then this might not be the ideal policy to put in place."[12]

8. Andreas R. Kostol and Magne Mogstad, "How Financial Incentives Induce Disability Insurance Recipients to Return to Work," *American Economic Review*, Vol. 104, No. 2 (2014), pp. 624–655.
9. Hugo Benitez-Silva, Moshe Buchinsky, and John Rust, "Induced Entry Effects of a $1 for $2 Offset in SSDI Benefits," SUNY Department of Economics *Working Paper*, 2005, http://www.econbiz.de/Record/induced-entry-effects-of-a-1-for-2-offset-in-ssdi-benefits-benitez-silva-hugo/10008461790 (accessed June 30, 2015).
10. The model uses a life-cycle approach to predict individual behavior for 1,123 simulated individuals based on a specified utility function including consumption, leisure, health status, and age. The flip side of the utility of leisure is the disutility of work, which is an increasing function with age and is higher for individuals with worse health. The authors compare the model results against actual behavior observed in the Health and Retirement study and other data from the SSA and other agencies.
11. Benitez-Silva, Buchinsky, and Rust, "Induced Entry Effects of a $1 for $2 Offset in SSDI Benefits."
12. Ibid., p. 28.

Transitioning to the Retirement Program

Another approach considers changes in labor force participation among older disability beneficiaries as they transition into the retirement program. Once disability beneficiaries reach full retirement age, they are no longer subject to losing their benefits should they earn above the substantial gainful activity level. By considering changes in labor force participation among disability beneficiaries who transition to the retirement program, Nicole Maestas and Na Yin[13] measure the work capacity of disability beneficiaries and draw conclusions relevant to a benefit-offset policy.

Since the labor supply trend among the elderly tends to slope downward, an increase in labor force participation for transition beneficiaries signals that there is considerable work capacity among DI beneficiaries.[14] Maestas and Yin discovered a 10.4 percent increase in labor force participation among retirees who were former DI participants compared to non-DI participants. Maestas and Yin conclude:

> Given that we have identified a labor supply response among those DI beneficiaries arguably least likely to work, we present our estimates as a lower bound on the work capacity of DI beneficiaries. Combining our estimates with recent work establishing an upper bound on the work capacity of DI beneficiaries [...] suggests that the DI program causes a modest 10–20 percentage point reduction in labor force participation.[15]

These results demonstrate that there is substantial work capacity among the current disability insurance population. This work capacity is a key assumption for a benefit offset to succeed in increasing labor force participation among disability beneficiaries.

More Generous Earnings Limit: Induces Entry

Another approach considers how past changes in the substantial gainful activity levels have affected applications to the disability insurance program. Nicole Maestas, Kathleen Mullen, and Gema Zamarro[16] consider how the 1999 policy-driven increase in the SGA level affected the application rate to the disability program. The results are relevant in light of the discussion over a benefit-offset policy because they shed light on how responsive the non-DI population is to changes in the generosity of DI benefits.

The authors find that a $200 increase in the nominal SGA level from $500 to $700 was responsible for a 4.7 percent increase in applications to the disability program. In other words, a 40 percent increase in how much disability beneficiaries were allowed to earn while continuing to receive disability benefits led to a 4.7 percent increase in DI applications.

Considerations

The literature concerning how work incentives affect SSDI beneficiaries suggests that there is substantial work capacity among the disability insurance population, especially among those who experience a partial or full recovery while staying on the rolls. Greater financial incentives to work provided through a benefit-offset program would likely increase labor force participation and earnings among the disability insurance population. A benefit offset applied above the SGA level of earnings would make the disability insurance program more generous by allowing beneficiaries to work more and supplement their disability benefits by a greater amount than is allowed under current policy.

A more generous program would also be expected to marginally induce entry into the disability insurance pool by individuals with disabilities who are not currently in the program. Moreover, beneficiaries who would lose their benefits upon earning more than the SGA level would be able to stay on the rolls longer. As exit rates are minimal given current policy, the induced entry effect would be expected to be larger than any reduced exit effect. Together these effects would likely increase program costs.

13. Nicole Maestas and Na Yin, "The Labor Supply Effects of Disability Insurance Work Disincentives: Evidence from the Automatic Conversion to Retirement Benefits at Full Retirement Age," Michigan Retirement Research Center, 2008.
14. Ibid., p. 4.
15. Ibid., p. 19.
16. Nicole Maestas, Kathleen J. Mullen, and Gema Zamarro, "Induced Entry into the Social Security Disability Program: Using Past SGA Changes as a Natural Experiment," University of Michigan Retirement Research Center, August 2012, http://deepblue.lib.umich.edu/bitstream/handle/2027.42/93590/wp262.pdf?sequence=1&isAllowed=y (accessed May 20, 2015).

Congress can mitigate program cost increases from the induced entry effect by implementing the benefit offset below the SGA level. One potential target is the amount at which a worker is considered to be engaging in the trial work period. Under current policy, a disabled worker earning more than $780 during a single month in 2015 will be considered as engaging in a trial work period, and his benefits will be protected even if his earnings exceed the SGA level. If Congress were to implement the benefit offset at the trial work period amount, and place a reasonable limit on it, it could potentially offset induced entry effects with savings from benefit reductions for individuals working in the range of the trial work period amount and the SGA level ($780 to $1,090 in 2015). One possible policy design would begin the benefit offset at the trial work period and limit it to twice the trial work period ($780 to $1,560 in 2015), for example.

A national benefit offset is expected to increase the earnings and disposable income of SSDI beneficiaries, while increasing program costs as the disability program expands beyond its statutorily targeted population.

Studies of benefit-offset programs do more to highlight an existing problem than to offer a helpful solution. Too many work-capable individuals receive DI benefits. The current program does a poor job defining disabilities, screening applicants, and monitoring beneficiaries to ensure that only those truly unable to work receive benefits. This is evidenced by the jump in employment among older disabled individuals as they leave the DI program and enter the Social Security system. Before considering a benefit offset, Congress should seek ways to better define disability, evaluate applicants, and monitor beneficiaries to ensure that only individuals with disabilities who are truly unable to work receive benefits.

Alternatively, Congress should recognize shortcomings in federal program design and adopt a schedule to phase out the current federal program in favor of block grants to the states, which the states could use to provide benefits directly or by adopting a premium-support model that relies on private-sector insurance companies to administer disability programs.

In sum, a national benefit-offset program is expected to increase the earnings and disposable income of SSDI beneficiaries, while increasing program costs as the disability program expands beyond its statutorily targeted population. As such, a benefit-offset program, starting at the SGA level of earnings, by itself is the wrong approach to addressing the Social Security disability insurance financing shortfall. In combination with other reforms that are more likely to result in program savings, a benefit offset can improve the welfare of individuals with disabilities.

Steps for Congress

As Congress is considering how to address the Social Security disability program's financing shortfall, it should look to reforms that address shortcomings in current policy design, and should:[17]

- **Adopt a needs-based period of disability.** Congress should consider replacing permanent benefits and continuing disability reviews with a needs-based period of disability of one to two years for individuals for whom medical improvement is expected, and of two to five years for individuals for whom medical improvement is possible. Beneficiaries for whom medical improvement is not expected would continue to be subject to continuing disability reviews, as is the case in the current system. Reapplication would be based on the current expedited reinstatement process that was adopted as part of the Ticket to Work and Work Incentives Improvement Act of 1999.

  Moreover, Congress should explore how to better utilize the state-based vocational and employment training infrastructure to assist individuals with disabilities who have significant work capacity to return to jobs instead of enrolling in SSDI. As SSDI is increasingly used, contrary to original statutory intent, as an early retirement and long-term unemployment program, Congress and the states should focus on early intervention for vulnerable

17. These recommendations were previously published in Romina Boccia, "What Is Social Security Disability Insurance? An SSDI Primer," Heritage Foundation *Backgrounder* No. 2994, February 19, 2015, http://www.heritage.org/research/reports/2015/02/what-is-social-security-disability-insurance-an-ssdi-primer.

populations seeking access to disability benefits when proper accommodations and employment training could help individuals with disabilities maintain attachment to the labor force. The most effective solution in this regard would be to allocate disability funds to the states to better align incentives to screen and assist individuals with disabilities seeking benefits due to work limitations.

The Secretaries Innovation Group recommends that states run the SSDI program with certain parallel features resembling existing state workers' compensation programs. These programs harness the private sector in rehabilitation interventions.[18] Together, these reforms would firmly establish the expectation of work where capabilities exist. They would also make better use of the existing state-based infrastructure to assist individuals with vocational rehabilitation and other work efforts. The proposed Protecting Social Security Disability Act of 2014 introduced by then-Senator Coburn grants time-limited benefits when recovery is expected, and includes early-intervention pilot projects to redirect work-capable applicants to jobs in the economy.[19]

- **Reduce incentives for early retirement.** Currently, SSDI beneficiaries with a sufficient work history who qualify for benefits before their full retirement age can receive the full benefit in retirement, whereas individuals who claim early retirement benefits between age 62 and age 67 see their retirement benefits reduced by up to 30 percent. In order to discourage individuals from using SSDI as an early retirement program, Congress could either convert disabled-worker beneficiaries to retired-worker status at the early retirement age, including the subsequent benefit reduction, or phase down DI benefits for people age 53 and older to arrive at the same benefit reductions gradually.[20]

Comprehensive Social Security Reform Needed. Moreover, Congress would be wise to reform the Social Security retirement and disability programs together, as there are important interactions between the programs, and because they share certain features, including how benefits are earned and determined. Moreover, both programs are headed toward insolvency, albeit at different rates. For both programs, Congress should:

- **Phase in a maximum flat benefit.** To better protect Social Security beneficiaries from destitution, Congress should change the two programs' needlessly complex benefit formulas by adopting a flat benefit above the federal poverty level for beneficiaries who are eligible for full disability and retirement benefits. A flat benefit would maintain the programs' goal of protecting disabled and elderly workers from destitution while encouraging workers with higher incomes to seek out additional private disability insurance and retirement savings. The flat benefit should be about equivalent to the average benefit today, and be phased in over two decades.

- **Target benefits to individuals with the greatest need.** In addition to considering earned income when assessing a covered worker's eligibility for SSDI benefits, Congress should include veterans' benefits, state and local government benefits, and investment income to determine a disabled worker's income needs. In this way, a flat benefit would provide a level of insurance against destitution for all Americans, while targeting benefits to those who need the benefits the most. Similarly, Social Security's retirement program was designed to protect the elderly from poverty, yet it pays benefits to many millionaires while leaving many low-income recipients in need of additional welfare benefits. Lawmakers should phase out benefits

18. Eloise Anderson and Jason Turner, "Reforming Disability," The Secretaries Innovation Group, April 2013, http://nebula.wsimg.com/a8583b6315c6629e032dc45a351bd015?AccessKeyId=EEB98E648E3097DCA50D&disposition=0&alloworigin=1 (accessed June 19, 2015).
19. Protecting Social Security Disability Act of 2014, S. 3003, https://www.congress.gov/bill/113th-congress/senate-bill/3003 (accessed January 9, 2015).
20. Congressional Budget Office, "Policy Options for the Social Security Disability Program," July 2012, http://www.cbo.gov/sites/default/files/43421-DisabilityInsurance_print.pdf (accessed January 8, 2015).

for beneficiaries with high levels of non–Social Security income and provide a true system of social insurance that focuses on individuals who need benefits the most.

- **Computing cost-of-living adjustments with the more accurate chained consumer price index (CPI).** The Social Security Administration currently uses the outdated CPI-W to compute annual cost-of-living increases. The CPI-W, used unaltered since 1975, only takes into account price changes experienced by one-third of Americans. In addition, the CPI-W fails to consider shifts in consumer spending habits as prices change, causing it to overstate the impact of inflation on beneficiaries and leading to excess payments. The Social Security Administration should replace the CPI-W with the chained CPI, which takes into account the prices paid by all urban workers—a demographic that covers 87 percent of Americans—and is considered to be a more accurate estimate of changes in the cost of living.[21]

Conclusion

Many individuals with disabilities want to participate in their communities through work, but current policy design discourages them from doing so. As Congress is considering policy changes to address the financing shortfall in the Social Security disability program, lawmakers interested in encouraging beneficiaries to return to work should implement reforms that are broader than a benefit offset. While a national benefit-offset policy would likely improve beneficiary welfare and encourage more work among disability insurance benefit recipients, it would also likely increase program costs by encouraging more individuals to enter the disability program and discouraging others from leaving the rolls. Congress should therefore mitigate any expected increase in program costs by setting the benefit-offset limit below the current SGA level, such that the policy change is budget neutral at the very least, or better yet, that it produces some saving.

Broader reforms should better align benefits and work conditions with individual needs and abilities in the way a needs-based period of disability would. Congress should further implement changes to reduce unfair incentives for early retirement through the disability program and consider comprehensive Social Security reforms that address shortcomings in the retirement and disability programs together.

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21. Romina Boccia and Rachel Greszler, "Social Security Benefits and the Impact of the Chained CPI," Heritage Foundation *Backgrounder* No. 2799, May 21, 2013, http://www.heritage.org/research/reports/2013/05/social-security-benefits-and-the-impact-of-the-chained-cpi/.