

**Social Security Advisory Board
Annual Report
2003**

and

**Statement
to accompany the
SSA Annual Report on the
Supplemental Security Income
Program**

May 2004

Social Security Advisory Board

An independent, bipartisan Board created by the Congress and appointed by the President and the Congress to advise the President, the Congress, and the Commissioner of Social Security on matters related to the Social Security and Supplemental Security Income programs.

May 2004

Message from the Board

In 1994, when the Congress passed legislation establishing the Social Security Administration as an independent agency, it also created an independent, bipartisan Advisory Board to advise the President, the Congress, and the Commissioner of Social Security on matters related to the Social Security and Supplemental Security Income programs. Under this legislation, appointments to the Board are made by the President, the Speaker of the House of Representatives, and the President pro tempore of the Senate. Presidential appointees are subject to Senate confirmation.

Since the Board began meeting in the spring of 1996, it has worked to address the broad mandate that the law provides. As this Annual Report describes, the Board's work has encompassed a number of important issues, including the responsibility of the Social Security Administration to operate its programs with integrity and to provide an excellent level of service to the public; the need for improved management of the disability programs; long-range financing for Social Security; the administration of the Supplemental Security Income program; the need for adequate funding for the agency; the use and misuse of Social Security numbers; and other challenges facing the Social Security program. We have studied the program in many ways including consulting with experts, meeting with agency officials and employees throughout the nation and at all levels of administration, and holding hearings to receive the views of the public. Our reports and recommendations have been issued by consensus and without dissent, and they have been widely distributed to members of Congress, the Administration, and the public.

This, our sixth *Annual Report*, describes the work that the Board has completed and the work that we currently have underway. The Board is committed to producing objective analysis and constructive recommendations that help both the Congress and the Administration in fulfilling their responsibilities with respect to the Social Security and Supplemental Security Income programs. Beginning with this report, we are moving to a calendar year report and we are incorporating our Statement on the Supplemental Security Income Program, which also accompanies the Social Security Administration's Annual Report on that program.

Hal Daub, Chairman

Dorcas R. Hardy

Martha Keys

David Podoff

Sylvester J. Schieber

Gerald M. Shea

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I. Establishment of the Board

In 1994, when the Congress passed legislation establishing the Social Security Administration as an independent agency, it also created a 7-member bipartisan Advisory Board to advise the President, the Congress, and the Commissioner of Social Security on matters relating to the Social Security and Supplemental Security Income (SSI) programs. The conference report on the legislation passed both Houses of Congress without opposition. President Clinton signed the Social Security Independence and Program Improvements Act of 1994 into law on August 15, 1994 (P.L. 103-296).

Advisory Board members are appointed to staggered 6-year terms, made up as follows: three appointed by the President (no more than two from the same political party); and two each (no more than one from the same political party) by the Speaker of the House (in consultation with the Chairman and the Ranking Minority Member of the Committee on Ways and Means) and by the President pro tempore of the Senate (in consultation with the Chairman and Ranking Minority Member of the Committee on Finance). Presidential appointees are subject to Senate confirmation. The President designates one member of the Board to serve as Chairman for a 4-year term, coincident with the term of the President, or until the designation of a successor.

Hal Daub was named by President George W. Bush as member and Chairman of the Advisory Board, and confirmed by the Senate in January 2002. He was sworn in as Chairman on March 20, 2002. In addition to the Chairman, the members of the Board are Dorcas R. Hardy, Martha Keys, David Podoff, Sylvester J. Schieber, and Gerald M. Shea. Bradley D. Belt was nominated by the President on November 12 to be a member of the Board and was given a recess appointment on December 26, 2003.

II. The Board's Mandate

The law gives the Board the following functions:

- 1) analyzing the Nation's retirement and disability systems and making recommendations with respect to how the Old-Age, Survivors, and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program, supported by other public and private systems, can most effectively assure economic security;
- 2) studying and making recommendations relating to the coordination of programs that provide health security with the OASDI and SSI programs;
- 3) making recommendations to the President and to the Congress with respect to policies that will ensure the solvency of the OASDI programs, both in the short term and the long term;
- 4) making recommendations with respect to the quality of service that the Social Security Administration provides to the public;
- 5) making recommendations with respect to policies and regulations regarding the OASDI and SSI programs;
- 6) increasing public understanding of Social Security;
- 7) making recommendations with respect to a long-range research and program evaluation plan for the Social Security Administration;

- 8) reviewing and assessing any major studies of Social Security as may come to the attention of the Board; and
- 9) making recommendations with respect to such other matters as the Board determines to be appropriate.

III. Major Activities of the Board

Consistent with its broad mandate, during late 2002 and into 2003 the Board devoted attention to a number of issues, as described below.

A. Service to the Public

When legislation was enacted in 1994 establishing the Social Security Administration as an independent agency and creating an independent Social Security Advisory Board, both the Congress and the President emphasized that a major objective of the legislation was to improve service to the public. The legislation gave the Advisory Board the specific charge of making recommendations for improving the quality of service that the agency provides to the public. This charge has become one of the Board's highest priorities.

Since the Board began its work in 1996, we have undertaken a continuing study of the agency's service to the public. The Board has made on-site visits to field locations across the country in order to obtain a point-of-service perspective of the challenges facing those who administer SSA's programs and the needs of those whom the programs are intended to serve. In September 1999, the Board issued a report, *How the Social Security Administration Can Improve Its Service to the Public*, which described how SSA was meeting its extensive service delivery demands and how its service could be improved. The Board summarized again its recommendations on SSA's service to the public in its report, *Agenda for Social Security: Challenges for the New Congress and the New Administration*, issued in February 2001. This report noted that SSA is facing serious service delivery problems in carrying out its responsibilities. These problems stem from a combination of factors, including a prolonged period of downsizing, a growing workload, and increasing program complexity.

The Board has made four overarching recommendations for improving SSA's service to the public:

- The agency needs to develop a service delivery plan that describes how it will deliver service over the short term and the long term.
- The Administration and the Congress need to ensure that SSA has the resources needed to carry out its plan.
- The agency needs to make major improvements in a number of its service delivery practices and strategies.
- The agency's leadership needs to address long-standing institutional problems.

Since that time, we have continued to follow-up on our 1999 and 2001 work to keep abreast of the issues that were raised and progress made in dealing with them. As in the

past, the Board has continued to meet with numerous SSA executives, managers, and staff throughout the country to discuss service delivery issues. In addition, the Board continues to meet with other interested organizations and groups, and to invite testimony from affected groups and members of the public on these very important issues.

In February of 2003, the Board traveled to SSA's headquarters in Baltimore, Maryland to meet with SSA executives, managers, and staff to discuss service to the public and other issues. The Board met with Terry Abbott, SSA's former Deputy Commissioner for Communications, to discuss online applications for benefits, the development of a national communications plan, revisions to the Social Security Statement, SSA's latest publications, and a newly designed Internet site for the agency. Also in February 2003, the Board met with Linda McMahon, SSA's Deputy Commissioner for Operations. Ms. McMahon briefed the Board on the "State of Operations," including SSA's progress in dealing with its Special Disability Workload, implementation of the Ticket-to-Work program, and activities associated with the designation by the U.S. General Accounting Office of SSI as a program at high risk for fraud, waste, abuse, and mismanagement. (GAO has subsequently removed SSI from its "High Risk" list.)

In May 2003, the Board traveled to Boston, Massachusetts. At the SSA Regional Office we held a series of meetings with regional officials, Field Office management employees, regional disability staff and others. Many issues relating to service to the public were included in the topics discussed. The Board also visited an SSA Field Office and discussed service delivery issues, particularly telephone service, with claims staff. During a Board-sponsored public hearing at Boston College we also heard from members of the public, some of whom brought concerns related to public service issues to the Board's attention.

In June 2003, the Board met with and discussed service delivery issues with Tony Pezza, President of the National Council of Social Security Management Associations (NCSSMA); Ron Buffaloe, Vice President of NCSSMA; Greg Heineman, Treasurer of NCSSMA; Rosemary Dunkle, President of the Chicago Regional Social Security Management Association; and Joseph P. Walsh, Jr., President of the Atlanta Regional Social Security Management Association.

In November 2003, the Board met with William Gray, SSA's Deputy Commissioner for Systems; Sue Roecker, SSA's Associate Commissioner for Disability Programs; Mark Blatchford, SSA's Associate Commissioner for Automation Support; Steven L. Schaeffer, SSA's Assistant Inspector General for Audit; and Bruce Golden, Senior Analyst for the Office of Hearings and Appeals. At this meeting, the Board was provided an update on SSA's progress in implementing the agency's new electronic disability process that the agency views as a key element in enabling it to more effectively manage the disability program and, in particular, to reduce the time it takes many applicants to navigate the eligibility determination system.

In December 2003, the Board traveled to Raleigh, North Carolina to visit a number of SSA Executives, including Atlanta Regional Commissioner Paul Barnes and his senior staff, SSA Field Office managers and staff, executives and staff of the North Carolina

Disability Determination Service, and managers and staff of the Raleigh Hearing Office. The Board spoke to managers and staff about service to the public and about emerging issues associated with SSA's and North Carolina's pilot tests of the new electronic disability system. Also, while in Raleigh, the Board held a public hearing to allow scheduled witnesses and members of the general public a forum to give the Board the benefit of their views on SSA service delivery issues, quality issues, and the extent to which proposed changes in the disability process would or would not be likely to improve service to the public. Public witnesses at this hearing also gave the Board some concrete examples of both outstanding service and of instances in which service could be improved.

B. Social Security Numbers

Since its inception, the Board has been especially concerned about one particularly troubling aspect of delivering quality service to the public – the rapidly growing incidence of Social Security number misuse and its relation to identity-related crimes. According to SSA's Inspector General, the vast majority of identity crimes – most of which are financial in nature – involve the misuse of an individual's Social Security number. But despite the seriousness with which these concerns were being discussed both inside and outside of government before September 11, 2001, the terrorist attacks against the United States have attached a new level of urgency to resolving unanswered questions about SSA's appropriate role vis-à-vis identity verification.

The Federal Bureau of Investigation (FBI) recognizes identity fraud as the fastest growing white-collar crime in America, making it a significant public policy issue. And, according to other reports from SSA's Inspector General and the FBI, improperly obtained Social Security numbers provide a significant vehicle for would-be terrorists to infiltrate themselves into our society, making Social Security number abuse a national security concern as well. Likewise, the Board has heard from SSA officials and the agency's Inspector General that improper attainment or theft of Social Security numbers, including counterfeit Social Security cards, plays a major role in illegal immigration and unauthorized work. It is also a cause of the growing inaccuracies in wage reporting that have resulted in large increases in SSA's earnings suspense file that records wages reported for Social Security numbers that do not match SSA records.

Over the last several years, the Board has been examining both the authorized and unauthorized uses of Social Security numbers, weaknesses in SSA's enumeration process and systems, and SSA's role in deterring identity-related crimes, illegal immigration and other security issues related to Social Security numbers. In addition, we have been keeping abreast of developments in SSA's pilot initiatives with the U.S. Citizenship and Immigration Services and the Department of State to improve communications and data sharing between agencies.

In March 2002, we issued our report on the agency's responsibility to ensure program integrity, *SSA's Obligation to Ensure That The Public's Funds Are Responsibly Collected and Expended*. In that report, the Board recommended that SSA work more aggressively with the Immigration and Naturalization Service (now called the U.S. Citizenship and Immigration Services) and with the Department of State to resolve any outstanding

loopholes or gaps in data sharing and in the identity verification process. The report noted the widespread use of Social Security numbers for purposes that extend well beyond their original role within the Social Security program. The issues surrounding the issuance and use of Social Security numbers and cards involve serious concerns for the Social Security Administration, other Federal and State agencies, and our society generally.

In November 2002, the Board met with Reba Andrew, the Director of SSA's Division of Eligibility and Enumeration, and Pat O'Carroll, SSA's Deputy Inspector General for Investigations. Ms. Andrew and Mr. O'Carroll gave an update to the Board on enumeration issues with an emphasis on the problems associated with student visas. In February 2003, the Board met with Linda McMahon, SSA's Deputy Commissioner for Operations, who briefed the Board on the "State of Operations," including enumeration. We intend to continue our work on this important stewardship and security issue in the coming year.

C. Management of the Disability Programs

The Board has devoted a great deal of time to the Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) disability programs. These programs provide essential income support for more than 10 million people. The Social Security Disability Insurance program provides 140 million American workers insurance that protects them against the risk of serious illness or injury. Over 5 million workers and their families currently receive income support from disability insurance and an additional 3.5 million disabled people receive monthly benefits from the Supplemental Security Income program. The total cost of disability benefits now exceeds \$100 billion a year and administrative costs exceed \$5 billion a year.

Many of the Social Security Advisory Board reports that have been issued over the last few years have focused on the problems of the Social Security disability programs. A careful analysis of these problems has led the Board to conclude that solutions will only be found in fundamental change.

During 2003, the Social Security Administration took new steps intended to help meet this challenge. One of SSA's most important goals is establishing an electronic disability claims process (eDib). Although there is almost unanimous agreement that this is a necessary and positive step that will lead to more efficient processing of disability claims, there have been some concerns expressed about the pace of implementation.

The importance of eDib to the future of the disability program has made it a top priority for the Board. Throughout 2003 the Board has been carefully monitoring its progress. In February 2003, the Board visited SSA headquarters and discussed implementation plans with SSA's senior systems staff. That same month, SSAB staff met with several State Disability Determination Service administrators and provided the Board with a detailed report on several concerns they raised. In March, the Board met with the Commissioner to discuss those issues and learn more about the SSA's process for discussing concerns with the State agencies.

The Board was given another progress report on eDib planning and implementation by SSA systems staff administrators in November 2003, and, in December we visited a pilot state, North Carolina, to get a first hand look at the eDib process and to hear about the testing of the electronic file. During this visit, Board members observed the process both at the Field Office and DDS level and met with SSA and DDS staff to learn about the project and listen to their assessment and concerns.

A major area of concern in the disability process is the hearings and appeals system. In our reports on the disability programs, we have indicated that consideration needs to be given to possible structural changes that might make the hearing process more efficient and uniform. To advance the state of knowledge in this area, the Board entered into two contracts with a group of distinguished experts to study first, the concept of establishing a separate Social Security court and second, the concept of having an agency representative who would participate in hearings before Administrative Law Judges. The first report, *Alternative Approaches to Judicial Review of Social Security Disability Cases: A Report to the Social Security Advisory Board*, was completed in March 2002. The second report, *Introducing Nonadversarial Government Representatives to Improve the Record for Decision in Social Security Disability Adjudications, a Report to the Social Security Advisory Board* was submitted to the Board in June 2003. In developing this report, the authors believed that it would be helpful to consult with affected parties. To facilitate that exchange, the Board, in October 2002, invited several groups of individuals to attend sessions at the Board's offices to discuss the issue. These sessions were attended by the invited parties, the authors, and Board staff and some Board members. Invited parties included SSA officials at various levels of the appeals process as well as representatives of groups reflective of claimant interests.

On September 25, 2003 Board Member Sylvester Schieber, on behalf of the Board, presented testimony before the Social Security Subcommittee of the House Ways and Means Committee on the management of the Office of Hearing and Appeals (OHA). Although the focus of the hearing was OHA, Mr. Schieber's testimony pointed out that the entire program has significant problems. He reviewed the Board's concerns about case processing delays, backlogs, inadequate resources, disability decision uniformity, policy development, and internal communication. His testimony stressed the Board's position that the only way for SSA to address the myriad of program management problems is to make fundamental changes in the way the disability program is administered.

At the same Subcommittee hearing Commissioner Barnhart announced that she was proposing significant disability determination process changes. These changes included making quick decisions for severe disabilities, eliminating the reconsideration step, establishing a medical expert unit, improving DDS decisions, establishing a Federal Reviewing Official position, eliminating the Appeals Council, closing the record after the Administrative Law Judge's hearing, improving the quality assurance process, and establishing an Oversight Panel.

The Board welcomes the Commissioner's leadership and notes that several of the proposed changes seem designed to respond to issues the Board has cited in our reports. The Commissioner has emphasized that the new approach is not a final plan and that

changes will be made through an open and collaborative process. The Board will be carefully monitoring this process, listening to the views and concerns of staff at all levels and other interested parties, and evaluating the proposed disability process changes as they emerge in more detail.

D. The Social Security Disability Definition

In its reviews of the Social Security Disability programs, the Board became aware that, beyond the very significant issues relating to the adjudication of claims and program management, there also exists widespread concern about whether the basic design and definition, adopted a half-century ago, remains appropriate for today's society. The Board first raised this issue in the August 1998 report, *How SSA's Disability Programs Can Be Improved*, and again in the January 2001 report, *Charting the Future of Social Security's Disability Programs: The Need for Fundamental Change*. In these reports, the Board questions whether Social Security's definition of disability is a disincentive to work and whether it is appropriately aligned with national disability policy.

Over the last year the Board has carefully examined the disability definition issue by asking experts to provide us with information on work incentives, rehabilitation, early intervention, and return to work demonstration projects. We met with researchers from the Rutgers University Early Intervention Project and SSA administrators to discuss SSA's plans for demonstration projects to encourage people to return to work. The Board also met with State vocational rehabilitation administrators about work incentives, disincentives, and rehabilitation. This is an issue that the Board also explored in our meetings with SSA regional disability and Field Office staff and with staff of State disability determination services during our visits to the Boston region and to Raleigh.

The culmination of the Board's research and discussion is a report that we issued in October 2003, *The Social Security Definition of Disability: Is it Consistent with a National Goal of Supporting Maximum Self Sufficiency?* The report reviews the background of the definition of disability, looks at how society and the program have changed, and asks basic questions about whether the disability program is in conflict with the national goal of self sufficiency for the disabled. The report concludes that it is time for the Nation to face up to the contradictions created by the existing definition of disability and seriously address the definitional issue. The Board hopes that the report will focus attention on this important issue and start a national dialogue to find better ways for the disability program to serve the nation's disabled citizens.

E. SSA Budget and Resources

Over the past decade, the Advisory Board has repeatedly expressed our concern about the level of resources available to the Social Security Administration for administering the vital Social Security and Supplemental Security programs. The growing workloads and increasing complexity of these programs have placed a great deal of stress on the agency's capacity to deliver the kind of service that the public needs and has a right to expect.

In particular the Board has urged that SSA make its annual budget requests based on a realistic assessment of the demands for service rather than merely seeking incremental changes from previous budgets. In response to this recommendation, the agency has now begun to submit budgets that were developed on the basis of a service delivery assessment that determined the additional resources needed to eliminate backlogs over a five-year horizon.

The Board continues to monitor the agency's resource needs. Each year, we carefully examine the agency's budget request in order to assess its adequacy vis-à-vis agency needs (as detailed in the Commissioner's 5-year service delivery plan). We follow the progress of the annual appropriations bill as it moves through the stages of Congressional consideration to become law. During our visit to SSA headquarters in February of 2003, the Board met with the officials who are responsible for the development of the agency's budget to discuss the fiscal year 2004 budget request. The Board was pleased to see that the President's budget request for SSA was based on the anticipated workload and the need to reduce the existing backlog of pending applications, with a significant increase in administrative funding over the previous year's budget and a sizeable increase in Full Time Equivalent positions.

On behalf of the Advisory Board, in March 2003 the Chairman wrote to the Chairmen and Ranking Minority members of House and Senate Appropriations Committees and to the Chairmen and Ranking Minority members of the Appropriations Subcommittees that have jurisdiction over the Social Security Administration's administrative budget. These letters pointed out that, because of the continuing substantial growth in the size and complexity of the SSA workload, the existing level of resources was seriously inadequate. The Chairman expressed the Board's view that the increased resources requested in the Budget were essential to enabling SSA to carry out effectively, efficiently, and with great integrity the important programs entrusted to it.

The Board Chairman also wrote to the Senate Finance and House Ways and Means Committees to inform them of our communication with the Appropriations Committees and to ask their support.

F. Financing of Social Security

Examining the issue of Social Security solvency both in the short term and in the long term is one of the responsibilities of the Advisory Board under our authorizing statute.

For some time, Technical Panels have been appointed periodically to review the assumptions and methods used by the Board of Trustees of the OASDI trust funds and SSA's Office of the Chief Actuary (OACT) in making long-range projections of the financial status of the Social Security program. Prior to the creation of the Advisory Board, the panels were appointed by the quadrennial Advisory Councils on Social Security. Beginning in 1999 the Advisory Board assumed the responsibility for the appointment of such panels. The first Technical Panel appointed by the Board began its work in January 1999 and submitted its report to the Board in November of that year. The Board forwarded that report to the Trustees, OACT, the Congress, and other interested parties.

Following past practice, the Board appointed its second Technical Panel four years later in January 2003. The 2003 Panel was charged by the Board with reviewing the key demographic and economic assumptions, with particular emphasis on the projected labor force participation of older persons, and the projection methodology used by the Trustees and OACT in evaluating the long-range status of the program. The 2003 Panel was also charged with reviewing and assessing the recommendations of the 1999 Technical Panel.

The eight-member Panel was composed of distinguished economists, demographers, and actuaries under the chairmanship of Professor Robert L. Clark of North Carolina State University. Following is a full list of the members of the Panel.

Robert L. Clark (Chair)
Professor, Departments of Business and Management and Economics
North Carolina State University

Katharine G. Abraham
Professor, Joint Program in Survey Methodology
University of Maryland
Former Commissioner of the Bureau of Labor Statistics

Richard V. Burkhauser
Professor and Chair of the Department of Policy Analysis and Management
Cornell University

Robert J. Gordon
Stanley G. Harris Professor of Social Sciences, Department of Economics
Northwestern University

Stephen G. Kellison
Consultant and former Public Trustee of the Social Security and Medicare Trust
Funds

Anna M. Rappaport
Principal, Mercer Human Resource Consulting

Kevin J. Stiroh
Research Officer, Federal Reserve Bank of New York

John R. Wilmoth
Associate Professor and Graduate Advisor, Department of Demography
University of California at Berkeley

The Panel began its meetings in January 2003 and submitted its report to the Advisory Board in October 2003. Panel members met with and consulted a number of outside experts in the process of conducting its study. Early in its deliberations, the Panel conducted a session at the meeting of the National Academy of Social Insurance in Washington, D.C. Later it also traveled to Minneapolis to meet with and get the views of

experts on fertility, mortality, and immigration at the annual meeting of the Population Association of America. Several Panel members followed this up with a meeting at Princeton University with a group of immigration demographers to get more in-depth input on this topic. The Panel also traveled to Boston to meet with the Social Security Working Group at the National Bureau of Economic Research Summer Institute. In addition to its meetings with these groups, the Panel invited outside experts to make presentations at Panel meetings. These experts included representatives from the Bureau of Labor Statistics, the Congressional Budget Office, the Census Bureau, and the American Academy of Actuaries. The Panel also met with Eugene Steuerle of the Urban Institute, who had chaired the 1999 Technical Panel.

The Advisory Board provided logistical and staff support for the Technical Panel. The Social Security Office of the Chief Actuary provided technical assistance to the Panel and participated in many of its meetings. Staff representatives of all of the Trustees of the Social Security trust funds were also present at several meetings. The Social Security Administration and the Advisory Board shared the cost of funding the panel.

The Panel made a number of significant recommendations for changes in the assumptions and methods used by the Trustees and the actuaries in making program projections. Several recommendations, especially those relating to immigration and real wage growth, would improve the projected financial status of the program, while others, such as those on mortality decline, labor force participation, and inflation, would have the opposite effect.

While the Advisory Board does not take a position on any of the recommendations of the Panel, we feel that it is important for periodic reviews of this type to be conducted. They provide a valuable source of outside expertise to the Trustees and actuaries as they make their projections. Perhaps more importantly they assure the public that the assumptions and methods used, and therefore the projections made, are truly professional and unbiased.

The Board has made the Report of the 2003 Technical Panel available to the Trustees and to the Social Security Administration and has provided copies to members of Congress and other interested parties. Following receipt of the report by the Board, the Board Chair and the Panel Chair held a joint press conference to make the finding of the Panel available to the broader public and policy community. In addition, the Board is considering more focused follow-up projects on some of the issues raised by the Panel's recommendations including labor force participation of older persons and longer-range changes in immigration.

During the period when the Technical Panel was operating, the Advisory Board met to discuss the 2003 Annual Reports of the OASDI and the Medicare trust funds with Deputy Commissioner James B. Lockhart III who serves as Secretary of the Board of Trustees, with Social Security's Chief Actuary Stephen C. Goss, and with Clare McFarland, Deputy Director, Division of Medicare and Medicaid from the Centers for Medicare and Medicaid Services. The discussion covered many of the same issues raised by the Technical Panel, including the net effect on long-range program costs of offsetting changes, the difficulty of projecting immigration numbers (especially of other-

than-legal immigrants), and the labor force participation behavior of older persons. The discussion also covered the condition of the Hospital Insurance Trust Fund and the combined long-range costs of Social Security and Medicare.

G. The Supplemental Security Income Program

Public Law 104-193 requires that members of the Social Security Advisory Board be given an opportunity, either individually or jointly, to include their views in the Social Security Administration's annual report to the President and the Congress on the Supplemental Security Income (SSI) program.

In the 2003 SSI report, the Board commented on two aspects of the SSI program. The first was program stewardship, SSA's obligation to ensure that the public's funds are responsibly expended, and the second was the disability determination process.

The Board pointed out data indicating that SSA's stewardship of the SSI program needs attention. The Board cited data showing that the annual amount of overpayment dollars detected in the program had increased by 80 percent since 1997. The Board referred to concerns it had heard about the quality of SSI work done in Field Offices and to reports of pressures for a high volume of production that prevent employees from taking the time and care needed to ensure quality.

The Board also expressed concerns about the collection of SSI overpayments. While the overpayment dollars detected had increased by 80 percent since 1997, collections of those overpayments had increased by only 68 percent. Collections were 45 percent of new detections in 1997 but only 42 percent in 2002. As a result, the overpayment balance at the end of the fiscal year nearly doubled during that period, from \$1.97 billion at the end of 1997 to \$3.77 billion at the end of 2002.

Regarding the SSI disability program, the Board commented on two aspects: issues of program administration and the need to adapt the program to meet current and future needs.

Citing data showing apparent inconsistencies in decision-making across states, across levels of the process, and across examiners within the same agency, the Board stated that as long as variations in decision-making remain unexplained, the integrity and fairness of the disability program are open to question, adding that the program is too important to the American public for this issue not to be addressed.

The Board questioned whether disability policy was being developed coherently and in accord with the intent of the Congress. Although Congress has not changed the law defining disability for adults since SSI was enacted in 1972, the determination of what constitutes disability has changed in fundamental ways. A number of policy changes have been made through changes in regulations and rulings, and many of them have grown out of court decisions, many of which have not been appealed.

Pointing out that the Federal-State structure that administers the program had experienced over the last half-century a growth in program size and complexity that it

was ill equipped to handle, the Board also raised questions about the ability of today's administrative structure to support future program needs.

On the subject of adapting the disability program to meet current and future needs, the Board pointed out that the SSI program uses the definition of disability used by the Disability Insurance program. That definition was enacted in 1956 to meet the needs of a manufacturing economy in which most work involved physical labor. Since then, educational levels have increased and medical, rehabilitative, and assistive technologies have improved. Our society now expects greater inclusion of and participation by people with disabilities. Despite all these changes, the percentage of the population that is receiving SSI disability benefits has more than doubled since the program began. The Board stated that, to the extent that this growth had occurred because we as a society have not used the means at hand to keep people productive, we have failed. As indicated elsewhere, the issue of the definition of disability and its impact on incentives for self-sufficiency was the subject of a report we issued in October 2003.

SSI was also one of the topics considered at the Board's public hearings Boston and in Raleigh, North Carolina. The Board spoke with witnesses on how the SSI program affects the claimants and beneficiaries with whom the witnesses work and on their recommendations for improving the program.

H. SSA's Programs and Economic Security

One of the functions given to the Board by the law that established it is to analyze the Nation's retirement and disability systems with respect to how the Old-Age, Survivors, and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program, supported by other public and private systems, can most effectively assure economic security. The Board has accordingly begun a study of the role of Social Security's programs in the overall picture of economic security.

The Board has identified several aspects of economic security that we are reviewing: the economic and demographic outlooks and their impact on overall economic security; the outlook for Medicare, Medicaid, and private health coverage; comparisons of the United States with other major nations in terms of public and private income of the aged and in terms of demographics and economics; changes in the health status of the aged; projected income of older men and women from private pensions and savings and from their interactions with Social Security; prospects for increased labor-force participation of older men and women; SSI projections and the role of SSI; and the interactions of SSA's retirement and disability with other public and private programs.

The Board has invited experts to discuss the status of economic security of the elderly and the disabled, long-range costs of Social Security and health programs and forecasting models for those programs, and the role of private pensions in economic security.

The Board met twice with Dan Crippen, the Director of the Congressional Budget Office (CBO). At the first meeting, Mr. Crippen discussed the long-range costs of Social Security and health care and CBO's long-term stochastic model for Social Security. At our second meeting, we discussed the future of Social Security and Medicare from a

macroeconomic perspective and the need for economic growth sufficient to meet the future needs. The Board met with Larry Thompson of the Urban Institute and Jeffrey Brown of the University of Illinois for an overview of economic security for the elderly and the disabled. Topics addressed included income distributions and projections, demographic trends, savings, pensions, and the labor supply. The Board discussed private pensions in a meeting with Alicia Munnell of Boston College and Jack VanDerhei of Temple University. Topics included defined benefit and defined contribution plans, pension coverage and participation rates, and models of retirement income. The Board met with James Klein of the American Benefits Council and Randall Johnson of Motorola Corporation to discuss employers' perspectives on such pension issues as funding and accounting rules, employer motivations in designing pension plans, the need for investment education, the importance of saving, and issues related to decumulation of retirement assets. The Board also discussed retirement security issues with Christian Weller of the Economic Policy Institute and Shaun O'Brien of the AFL-CIO. The Board met with Deputy Commissioner James Lockhart and Don Blandin of the American Savings Education Council to discuss SSA's efforts in coordination with the private sector to educate the public on the importance of savings and retirement planning. With David Walker, Comptroller General of the United States, the Board discussed demographics and the sustainability of entitlement programs, evaluation of Social Security and Medicare reform proposals, and the reasons why disability programs had been placed on the General Accounting Office's high-risk list.

At the Board's public hearing in Boston, witnesses provided testimony about pensions, savings, labor force participation, educating employees about retirement security, young people's perspectives on Social Security, and proposals for Social Security reform. At its public hearing in Raleigh, the Board received testimony on the relation of Social Security to medical insurance programs and their impact on health.

IV. Board Operations and Communications

Membership changes—Board member Sylvester Schieber’s term expired on September 30, 2003. He was reappointed to the Board in October 2003 by the President pro tempore of the Senate for a six-year term. In September 2003, the President nominated Bradley D. Belt to be a member of the Board. On November 12, his nomination was favorably reported by the Senate Committee on Finance. Mr. Belt subsequently received a recess appointment to the Board in December.

Meetings—From October 2002 through December 2003, the Board met at its offices eleven times and held one conference call. It made three site visits for the purpose of gathering and evaluating information related to the operation of the disability programs, program integrity, and other aspects of SSA’s service to the public.

Public Hearings—The Board conducted public hearings in Boston in May 2003, and Raleigh, North Carolina in December 2003. At the Boston hearing, the Board’s focus was on the outlook for economic security through public and private programs. It heard testimony from distinguished scholars who have studied Social Security and retirement policy and individuals who addressed the issues from the perspectives of workers and employers. In Raleigh, the Board focused on SSA’s disability programs, and Social Security and the overall picture of economic security. The Board heard from members of the public and organizations that represent populations served by the SSA regarding the Social Security disability programs, the quality of service that the SSA delivers, and how SSA can improve its service delivery. It also heard from an expert on how health and health programs interact with Social Security in the overall context of economic security.

Publications—From October 2002 through December 2003, the Board issued two reports: *Annual Report for Fiscal Year 2002*, and *The Social Security Definition of Disability*. The Board also published the report of the 2003 Technical Panel on Assumptions and Methods. It published *Introducing Nonadversarial Government Representatives To Improve The Record For Decision In Social Security Disability Adjudications*, a report written by Strategem, Inc. under contract to the Board. In addition, the Board commented on the Supplemental Security Income Program in “Statement on the Supplemental Security Income Program,” included in the SSA’s *Annual Report of the Supplemental Security Income Program*.

Technical Panel on Assumptions and Methods—The Board appointed a Technical Panel to review the assumptions and methods used by the Board of Trustees of the Old-Age, Survivors, and Disability Insurance Trust Funds to project the future financial status of the Funds. The Panel began work in January 2003 and issued its final report in October 2003.

Addresses—In October 2003, Chairman Daub addressed the National Association of Disability Examiners. In November, he met with the National Council of Social Security Management Associations. Also in November Chairman Daub addressed the Association of Administrative Law Judges.

Communications—On March 2, 2003, the Board sent letters to the leadership of the Appropriations Committees of the Senate and House of Representatives stating that increased funding for SSA’s administrative budget is critical in order for the agency to meet its responsibilities to serve the public in an effective manner. Similar letters were sent to the leadership of the House Committee on Ways and Means and the Senate Committee on Finance. On July 22, 2003, the Board again sent letters to the leadership of the House Committee on Ways and Means and the Senate Committee on Finance, this time on two issues: urging the Committees to consider legislation allowing SSA to collect outstanding Supplemental Security Income overpayments by offsetting the full amount owed against the lump-sum retroactive Social Security adjustment that many individuals will qualify for because SSA did not previously detect their Social Security eligibility; and asking the Committees to consider legislation to allow SSA to use pension payment data as reported to the Internal Revenue Service in connection with Social Security benefits for beneficiaries who also receive public pensions.

Testimony—On September 25, 2003 Board member Sylvester Schieber testified before the Social Security Subcommittee of the House of Representatives’ Committee on Ways and Means on the issue of management of the Office of Hearings and Appeals. On November 4, 2003 Bradley Belt appeared before the Senate Committee on Finance at his confirmation hearing.

V. Visits to Field Sites October 2002-December 2003

1. Baltimore, Maryland, February 19 and 20, 2003

The Advisory Board and staff met with Social Security Commissioner Jo Anne Barnhart and other SSA officials and staff at SSA headquarters in Baltimore to discuss SSA’s budget, legislative agenda, and communications plan, and also to tour the National Computer Center and a folder storage area. In addition to meeting with the Commissioner, Board members held sessions with the Deputy Commissioners for: Finance, Assessment, and Management; Operations; Legislation and Congressional Affairs; Systems; Disability and Income Security Programs; and Communications. They also met with the General Counsel.

2. Boston, Massachusetts, May 28 and 29, 2003

The Advisory Board and Board staff met with Social Security Administration officials and staff of the Boston Regional Office, the Boston Hearing Office, the Roxbury Field Office, and the Massachusetts DDS to discuss service to the public, disability, and other program issues. Sessions were held with the Regional Commissioner, the Deputy Regional Commissioner, and the regional executive staff; Regional Chief Counsel; the Regional Management Officer for the Office of Hearings and Appeals; the Boston Hearing Office Chief Administrative Law Judge, Administrative Law Judges, and Hearing Office staff; the Commissioner and Deputy Commissioner of the Massachusetts Rehabilitation Commission and staff of the Massachusetts Disability Determination Services; Office of Inspector General

staff, area directors, Field Office managers and management support specialists; and Roxbury Field Office staff.

The Board held a public hearing in Boston where its focus was on the outlook for economic security through public and private programs. It heard testimony from distinguished scholars who have studied Social Security and retirement policy and individuals who addressed the issues from the perspectives of workers and employers.

Witnesses included Manuel Vaz, Boston Regional Commissioner, Social Security Administration; Alicia Munnell, Director of the Center for Retirement Research at Boston College; Joseph Quinn, Professor of Economics and Dean of the College of Arts and Sciences, Boston College; Jonathan Gruber, Professor of Economics, Massachusetts Institute of Technology; Joe McGlynn, Vice President, Campbell Fittings, Inc., Boyarstown, Pennsylvania; Mandie Yanasak, Emerson University Student; and Sandy Sudol, former Lucent Technologies employee. In addition the Board heard testimony from several other individuals who attended the hearing.

3. Raleigh, North Carolina, December 11 and 12, 2003

The Board and Board staff met with Social Security Administration officials and staff of the Atlanta Regional Office, the Raleigh Field Office, the North Carolina Disability Determination Services, and the Raleigh Hearing Office to observe first hand the elements of the electronic disability process which are being piloted there. The Board met with the Regional Commissioner; the District Manager and staff of the Raleigh Field Office; the North Carolina DDS Administrator and DDS staff; a representative from the regional and central offices of the Office of Hearings and Appeals; representatives from SSA headquarters' Office of Systems; the Raleigh Hearing Office Administrative Law Judges; the Hearing Office Director, and other Hearing Office staff.

The Board held a public hearing in Raleigh on SSA's disability programs, and Social Security and the overall picture of economic security. The Board heard from members of the public and organizations that represent populations served by the SSA regarding the Social Security disability programs, the quality of service that the SSA delivers, and how SSA can improve its service delivery. We also heard from an expert on how health and health programs interact with Social Security in the overall context of economic security.

Witnesses included Paul Barnes, Atlanta Regional Commissioner, Social Security Administration; William Dow, Assistant Professor for Health Policy and Administration, School of Public Health, University of North Carolina; Candice Apple, President/CEO, Candice Apple and Associates, Greensboro; Raleigh; Susan Hartley, Executive Director, Life Plan Trust, Apex; Mike Hosick, Executive Director, Triangle Disability Advocates, Inc., Raleigh; and Etherlene Pearce, Executive Director, Hilltop House, Raleigh. In addition the Board heard testimony from other individuals who attended the hearing.

VI. Reports and Publications

1. *The Social Security Definition of Disability: Is It Consistent with a National Goal of Supporting Maximum Self Sufficiency?*, October 2003.
2. *The 2003 Technical Panel on Assumptions and Methods, Report to the Social Security Advisory Board*, October 2003.
3. *Introducing Nonadversarial Government Representatives to Improve the Record for Decision in Social Security Disability Adjudications, A Report to the Social Security Advisory Board*, June 2003.
4. "Statement on the Supplemental Security Income Program," Additional Statement by the Social Security Advisory Board in the *Annual Report of the Supplemental Security Income Program*, Social Security Administration, May 2003.
5. *Annual Report Fiscal Year 2002*, December 2002.
6. "Statement on the Supplemental Security Income Program," Additional Statement by the Social Security Advisory Board in the *Annual Report of the Supplemental Security Income Program*, Social Security Administration, May 2002.
7. *SSA's Obligation to Ensure that the Public's Funds are Responsibly Collected and Expended*, March 2002.
8. *Alternative Approaches to Judicial Review of Social Security Disability Cases: A Report to the Social Security Advisory Board*, March 2002.
9. *Challenges Facing the New Commissioner of Social Security*, Statement by Stanford G. Ross, December 2001.
10. *Annual Report Fiscal Year 2001*, October 2001.
11. *Estimating the Real Rate of Return on Stocks Over the Long Term*, Papers presented to the Social Security Advisory Board, August 2001.
12. *Social Security: Why Action Should Be Taken Soon* (Revised Edition), July 2001.
13. "Statement on the Supplemental Security Income Program," Additional Statement by the Social Security Advisory Board in the *Annual Report of the Supplemental Security Income Program*, Social Security Administration, May 2001.
14. *Agenda for Social Security: Challenges for the New Congress and the New Administration*, February 2001.
15. *Charting the Future of Social Security's Disability Programs: The Need for Fundamental Change*, January 2001.

16. *Disability Decision Making: Data and Materials*, January 2001.
17. *Annual Report Fiscal Year 2000*, October 2000.
18. *The Technical Panel on Assumptions and Methods, Report to the Social Security Advisory Board*, November 1999.
19. "Statement on the Supplemental Security Income Program," Additional Statement by the Social Security Advisory Board in the *Annual Report of the Supplemental Security Income Program*, Social Security Administration, May 2000.
20. *Annual Report Fiscal Year 1999*, October 1999.
21. *How the Social Security Administration Can Improve Its Service to the Public*, September 1999.
22. *Forum on the Implications of Raising the Social Security Retirement Age*, May 1999 (Staff document).
23. "Statement on the Supplemental Security Income Program," Additional Statement by the Social Security Advisory Board in the *Annual Report of the Supplemental Security Income Program*, Social Security Administration, May 1999.
24. *Annual Report Fiscal Year 1998*, October 1998.
25. *How SSA's Disability Programs Can Be Improved*, August 1998.
26. *Social Security: Why Action Should Be Taken Soon*, July 1998.
27. "Statement on the Supplemental Security Income Program," Additional Statement by the Social Security Advisory Board in the *Annual Report of the Supplemental Security Income Program*, Social Security Administration, May 1998.
28. *Strengthening Social Security Research: The Responsibilities of the Social Security Administration*, January 1998.
29. *Increasing Public Understanding of Social Security*, September 1997.
30. *Forum on a Long-Range Research and Program Evaluation Plan for the Social Security Administration: Proceedings and Additional Comments*, June 24, 1997 (Staff document).
31. *Developing Social Security Policy: How the Social Security Administration Can Provide Greater Policy Leadership*, March 1997.

Reports are available on the Board's web site at www.ssab.gov

**STATEMENT
of the
SOCIAL SECURITY ADVISORY BOARD**

**on the
SUPPLEMENTAL
SECURITY INCOME PROGRAM**

(As incorporated pursuant to Public Law 104-193 in the 2004 Annual Report of the Social Security Administration on the Supplemental Security Income (SSI) program.)

In its statements in previous annual reports, the Board has discussed a wide range of issues, including program integrity, the disability determination process, rehabilitation and employment services, research and program evaluation, and service delivery. All of these areas require continuing attention. We note in particular that the Social Security Administration is undertaking major revisions in the disability determination process and in the systems supporting that process. This is an encouraging development, and the Board expects to monitor those changes as they are implemented.

In presenting our views this year, we would like to comment on two aspects of the program. We will first comment briefly on program integrity in general and overpayments in particular. Then we will focus on the concept of disability embodied in the SSI program and the degree to which it meets the needs of the American people today. We have presented our views on the Social Security disability programs more fully in our October 2003 report, *The Social Security Definition of Disability*, available on our website, www.ssab.gov.

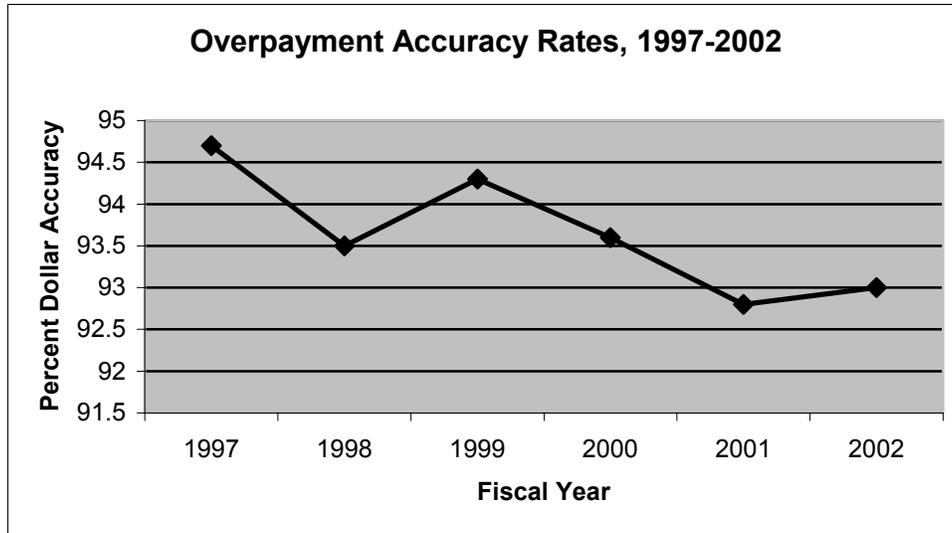
PROGRAM INTEGRITY AND OVERPAYMENTS

In 1997 the General Accounting Office designated SSI a high-risk program because of its vulnerability to abuse and mismanagement, increasing overpayments, and poor recovery of outstanding overpayments. Last year, GAO removed the program from its high-risk list, noting SSA's progress in improving the financial integrity and management of the program. GAO noted SSA's actions in obtaining legislation to prevent and collect overpayments as well as administrative actions to strengthen SSI program integrity.

GAO also noted, however, that the impacts of SSA's actions were not yet fully realized. A look at some recent data shows that the SSI program continues to need attention. Payment accuracy is lower than in 1997, and the balance of identified SSI overpayments has climbed every year since 1997.

Payment Accuracy

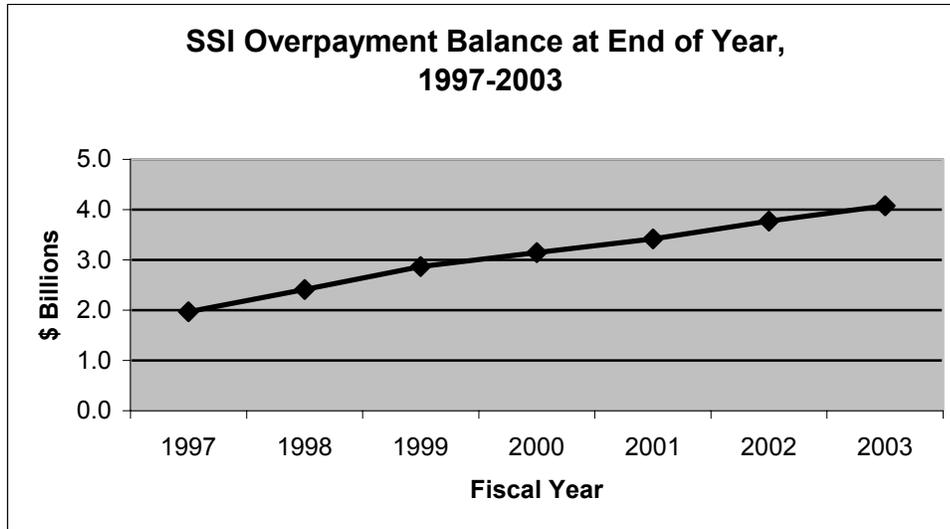
SSA conducts an annual stewardship study of the SSI program. The study examines a monthly sample of non-medical reviews of SSI cases in current-pay status. The study for FY 2002, the most recent available, shows a decline in non-medical accuracy since 1997, the year that GAO designated SSI a high-risk program. The overpayment accuracy rate for FY 2002 was 93.0 percent, compared to 94.7 percent in FY 1997. Applying the FY 2002 rate to the universe of \$34 billion in SSI payments results in a projection of \$2.4 billion in SSI overpayments. ("Overpayment accuracy" is determined on the basis of a sample study by subtracting overpaid benefits from total benefits paid and then dividing the result by total benefits paid.)



Field office managers have consistently expressed to the Board their concerns about the quality of non-medical SSI work done in their offices. They say that pressures for a high volume of production prevent their employees from taking the time and care needed to ensure quality. They add that because of the reduction in management positions in field offices, they are unable to do quality reviews. A survey of field managers conducted last year by the National Council of Social Security Management Associations reinforces these concerns. The survey showed that only 7 percent of managers think that the quality of work produced in their office had improved over the last two years, while 48 percent thought it had worsened.

Overpayment Collection

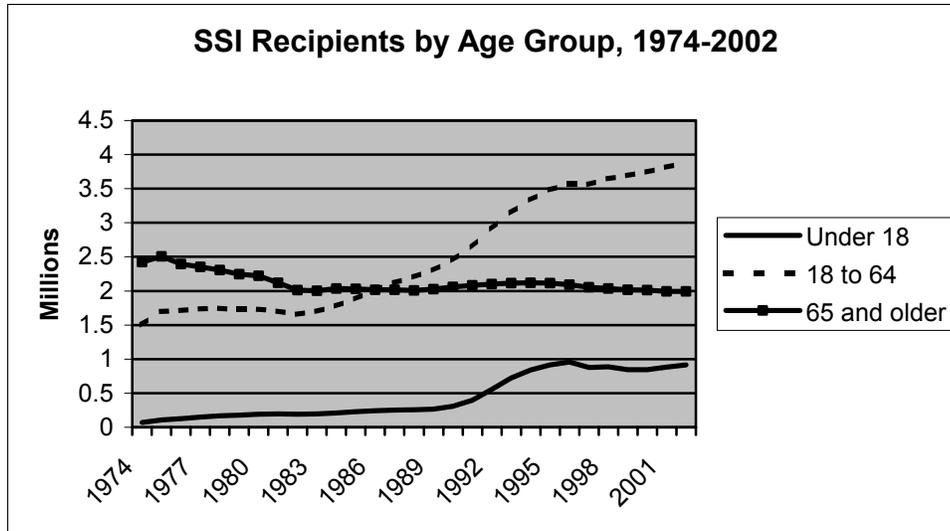
Although the collection of overpayments is a highly cost-effective activity, yielding about \$10 in recovered funds per dollar spent on the activity, resource limitations have constrained the agency's results in this area as well. The end-of-year SSI overpayment balance has doubled since the program was first put on the high-risk list, from \$2 billion in 1997 to \$4 billion in 2003. Although SSI overpayment collections increased in FY 2003 because of new "netting" software that automatically recovers overpayments when an underpayment is discovered, the SSI overpayment balance was \$305 million higher at the end of 2003 than at the end of 2002.



The law provides that overpaid beneficiaries may request a waiver of collection of the overpayment, which the agency may grant under certain conditions. As we pointed out in previous reports, we believe that waiver policies may be applied too loosely. This is not a criticism of SSA's hard-working field office employees. Rather, it is a reflection of the shortage of staff in those offices. As an SSA executive has told the Board, field offices often do not pursue overpayment collection because the staffs are too busy, and it is easier for them to waive collection of the debt. SSA's Office of the Inspector General should be commended for its plans to issue an audit report this year evaluating SSA's waiver process and to issue a report in FY 2005 on undetected overpayments in SSA's disability programs.

THE CONCEPT OF DISABILITY IN THE SSI PROGRAM

In discussions of Social Security disability programs, attention tends to center on the Disability Insurance program which accounts for annual expenditures of more than \$70 billion. However, the SSI disability program, although much smaller in benefit costs, represents a very large percentage of the disability caseload. Of the 10.5 million persons receiving benefits on the basis of disability, 3.6 million are qualified solely through the SSI program and another 1.3 million receive both SSI and title II disability payments. While the number of SSI aged beneficiaries has declined since the program was initiated in 1974, the number of disabled beneficiaries has grown substantially and continues to increase.



SSI beneficiaries are, in many respects, different from DI disabled worker beneficiaries. They tend to have less work history and a more tenuous connection to the workforce. They are more likely to have mental disorders. In 2002, 22 percent of SSI beneficiaries age 18 to 64 had a diagnosis of mental retardation, and 33 percent had other mental disorders. Only 9 percent had a musculoskeletal diagnosis. By contrast, only 5 percent of DI disabled workers had a diagnosis of mental retardation, 28 percent had other mental disorders, and 24 percent had a musculoskeletal diagnosis. One in three adult SSI beneficiaries has a representative payee, compared with less than one in eight DI disabled workers. SSI beneficiaries are poor, with 60 percent of those age 18 to 64 having no income other than their SSI benefits. These are very substantial differences. Consideration of any changes in program definition or structure should take these differences into account.

Defining Disability

When Congress established the Supplemental Security Income program in the Social Security Amendments of 1972, it adopted for that program the same definition that had been established for the Disability Insurance program. An applicant will be found to be disabled if he or she is “unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.” Because the inability to engage in substantial gainful activity is not a test readily applicable to children, the law defines disability for those under age 18 in terms of “marked and severe functional limitations.”

As we pointed out in our October 2003 report on the Social Security definition of disability, this definition has its roots in an earlier era when there was little expectation that those with severe disabilities could have any realistic expectation of participating in employment or aspiring to self-sufficiency. It seemed both feasible and reasonable to adopt a definition of disability that would attempt to draw a clear line between those who could and those who could not work.

While the definition of disability has remained unchanged throughout the 30 years of the SSI program and essentially unchanged since the Social Security Disability Insurance program was enacted a half-century ago, there have been many changes in the economy, in medicine, in rehabilitative technology, and in attitudes about disability and the disabled.

Medical advances and improved rehabilitative knowledge and technology have made it harder to draw a clear line between those who can and those who cannot work. The nature of work and the workforce has also changed. We have become much more of a service economy, in which it is harder to measure the degree to which medical impairments limit an individual's ability to engage in employment. Indeed, in the early years of the Social Security disability program, over 90 percent of awards were based on the severity of applicants' medical conditions without the need for the highly individualized assessment of the combined impact of medical and vocational factors that now is required in well over half of all allowed disability claims.

Attitudes about disability and work have also changed over the years. Changing public attitudes are reflected in the enactment in 1990 of the Americans with Disabilities Act that required employers to make reasonable accommodations as necessary to enable the employment of disabled individuals and that condemned stereotypic assumptions about the ability of disabled individuals to participate in, and contribute to, society.

Work as an Objective of the SSI Disability Program

Although it defines disability as the inability to do any substantial gainful work, from its beginnings the SSI program has also included elements aimed at helping or encouraging beneficiaries to engage in work activity. The legislation that established it included provision for payment to State Vocational Rehabilitation agencies for rehabilitation services to SSI beneficiaries. Other provisions aimed at encouraging work activity were included in (or have been added to) the SSI legislation.

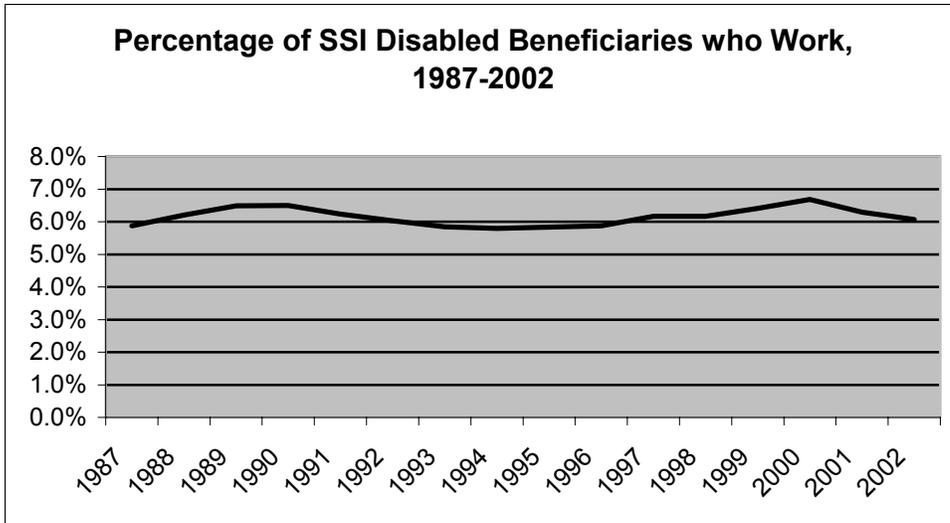
- **Continuation of SSI** – Beneficiaries who work may continue to receive SSI payments until their countable income exceeds the SSI limit. (For an individual getting only Federal SSI with other income only from earnings, the monthly benefit rate would be reduced to zero at a monthly earnings level of \$1,213.)
- **Continuation of Medicaid eligibility** – Medicaid eligibility will usually continue even if beneficiaries earn too much to receive SSI payments, if they cannot afford similar medical care and depend on Medicaid in order to work.
- **Earned income exclusion** – The first \$65 (\$85 if the beneficiary has no unearned income) of any monthly earned income, plus one-half of remaining earnings are excluded from countable income.
- **Student earned income exclusion** – For students under age 22 who are regularly attending school and neither married nor the head of a household, up to \$1,370 of earned income per month, to a maximum of \$5,520 per year, is excluded from countable income.
- **Work expenses of the blind** – Any income earned by a blind individual that is used to meet expenses needed to earn that income is excluded from countable income.

- **Plan for achieving self-support (PASS)** – A PASS allows a disabled or blind individual to set aside income and resources to get a specific type of job or to start a business. The income and resources that are set aside are excluded under the SSI income and resource tests.
- **Reinstatement of benefits** – Beneficiaries who have not been eligible for an SSI benefit for 12 months or less do not have to file a new application to reinstate SSI cash payments or Medicaid coverage.
- **Impairment-related work expense exclusion** – The cost of certain impairment-related services and items that a beneficiary needs in order to work are excluded from countable income for SSI purposes and are deducted from earnings when determining if work is substantial.
- **Continued payment under a vocational rehabilitation program** – Beneficiaries who medically recover while participating in a vocational rehabilitation program that is likely to lead to becoming self-supporting may continue to receive benefits until the program ends.

The Ticket to Work and Work Incentives Improvement Act (TWWIIA) of 1999 amended the Social Security Act to create the Ticket to Work program. The program provides DI and SSI disability beneficiaries with a Ticket that can be used to obtain vocational rehabilitation training, employment services, or other support services through public and private providers. TWWIIA also expanded the availability of health care services to working disability beneficiaries. The law provided several enhancements to Medicaid, including giving States more options in providing Medicaid coverage to people ages 16-64 with disabilities who work.

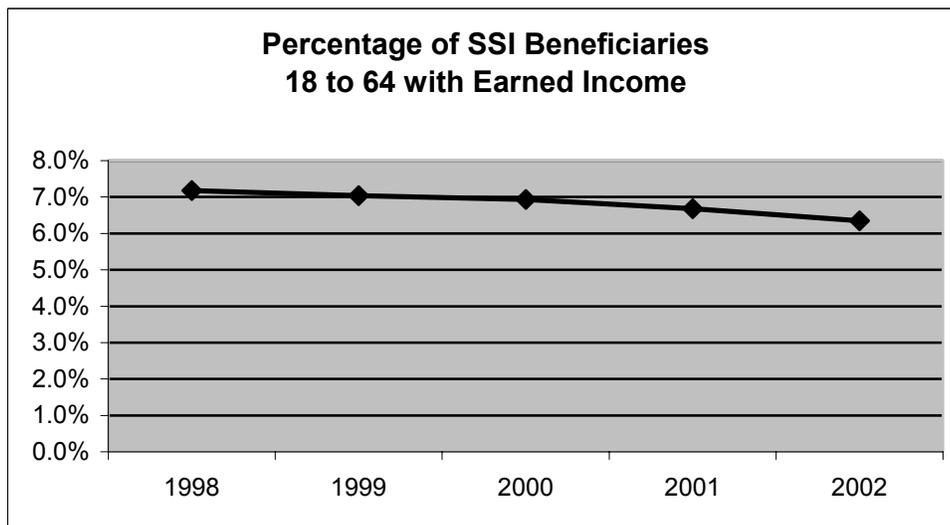
Participation rates in the program, however, have been low, and most Ticket to Work activity continues to involve State Vocational Rehabilitation agencies. Information on participation by SSI beneficiaries has not been published, and SSA's management information system does not make it readily available. This is troubling, especially in view of concerns expressed by the Ticket to Work Advisory Panel that program incentives are not adequate to induce providers to serve SSI beneficiaries.

Data on work, rather than on program participation, show that the response to all of these incentives has been limited. Published data for the 18 to 64 age group are not available for the entire period since the program began, and figures on the number of SSI beneficiaries who work are not available for 1984 through 1986. Since 1987, however, the percentage of all disabled SSI beneficiaries who work has fluctuated around 6 percent. A very substantial amount of that work activity is by beneficiaries with disabilities based on mental retardation. While that diagnosis accounts for 22 percent of the working-age SSI disabled population, it accounts for 42 percent of those who have work activity.



As of December 2002, of the 3.9 million SSI beneficiaries between the ages of 18 and 64 receiving a cash benefit, only about 246,000, or 6.3 percent of the total, reported having earned income. The average monthly earnings for this group were \$324. Out of this group, 17,000 had earnings above the substantial gainful activity (SGA) level (\$780 in 2002). Another 79,000 were above the SGA level and were receiving Medicaid but no cash benefit.

The percentage of beneficiaries of SSI cash benefits age 18 to 64 with earned income has fallen from 7.2 percent in 1998 to 6.3 percent in 2002.



The amount of work activity seems small in view of the incentives that have been provided, and it is particularly of concern that work activity seems to be less rather than more common despite the addition of numerous features aimed at encouraging work.

Policy Questions

We believe it is necessary to look beyond the existing incentives and disincentives and to question whether the definition of disability that is at the heart of the existing disability programs is consistent with our society's basic beliefs about disability and work. The present definition asks the applicant and the government to make a determination that substantial work is not possible. That, probably inevitably, creates a mindset that is inimical to the motivations that are crucial to supporting the objective of enabling impaired individuals to achieve maximum self-sufficiency and independence. Moving away from that definition would very clearly involve significant programmatic changes. Given the importance of the disability programs, any such changes would have to be carefully developed and carefully implemented. A first step in addressing this issue would be a consideration of the choices policymakers would face, including the issue of the extent to which the desired results could be achieved by changes within the existing programs. In our October 2003 report we discuss in detail a variety of policy issues that would need to be addressed including:

- Can the current definition ever be administered fairly and accurately?
- What improvements are possible within the confines of the existing program and definition?
- Is the existing definition central to program acceptability?
- What is the realistic potential of the disability population for work?
- How effective are the current eligibility processes at drawing the line between the able and the disabled, and is significant improvement possible?
- How does a disability program fit into the overall and greatly changing picture of income security?
- How can the impact of disability programs on motivation to work be improved?
- Does the disability program, as currently defined, fail to meet the legitimate needs of a significant portion of the impaired population?
- Should work-oriented services be targeted on beneficiaries or on applicants?
- What should be the role of the Social Security Administration if there is a major restructuring?

In considering SSI specifically, there is the additional issue of whether different approaches should be used for the DI and SSI programs. These two programs' beneficiaries differ in their work histories and education levels, suggesting that approaches and incentives that work for one program might not be appropriate for the other. The fact that the nature of their disabilities is also different, with a much higher prevalence of mental retardation and other mental disorders in the SSI beneficiary population, also suggests that different approaches would be needed for them. In addition, SSI beneficiaries have increasingly been receiving means-tested benefits from other programs as well, making their work incentive situation more complex. The benefit levels of the DI and SSI programs are also different. As of February 2004, the average DI worker benefit was \$862.60, while the average benefit for an SSI beneficiary age 18 to 64 was \$443.20. From a cost-benefit perspective, it is easier to justify incentives or supports for DI beneficiaries to return to work, since the potential program savings are greater. On the other hand, average wages in the economy have tended to rise faster than

SSI income support levels. This would argue that failing to encourage and support work activity for SSI beneficiaries puts them at an even greater disadvantage compared with DI beneficiaries whose benefit levels tend to increase with rising wages.

Issues Related to Alternative Program Designs

Changing the definition of disability would require a major redesign of all or part of the program. It would almost certainly have substantial implications for program costs, caseloads, and administrative resources. To the extent it involved changes in eligibility or benefit levels, a long transition would be needed to assure that current beneficiaries are not adversely affected.

Ultimately, policymakers would need to decide whether the monetary and social gains from such a major shift of direction are worth the monetary and social consequences that might result. There are several basic questions that would need to be answered about any alternative program, such as:

- What would be the appropriate definition (or definitions) of disability?
- Would it increase or decrease the extent of eligibility and the cost of the program?
- Would benefit levels differ from the existing program and in what ways?
- Would it continue to be administered by the Social Security Administration and, if not, by what agency or agencies?
- Would it emphasize services or just provide benefits under a different set of rules designed to rely on stronger economic incentives for working?

If Congress wanted to adopt a different definition of disability, many different structures and combinations of structures are possible. Some of the possible elements that might be considered include:

- Paying benefits based on an essentially medical definition of what constitutes a “severe” disability, not necessarily the same as the current adjudicative distinction between severe and non-severe, but not requiring a finding as to the impact of the disability on each individual’s ability to work.
- Divorcing eligibility for health benefits from eligibility for cash benefit programs, or perhaps, for certain categories of the disabled, providing the health care necessary for employment rather than cash benefits.
- Dividing the disability program into two programs. A “permanent” program roughly equivalent to the existing program would begin only after a longer waiting period (perhaps two or three years) or might be available immediately only to those with the most severe disabilities. A new temporary program would be available during that waiting period. The temporary program might differ from the permanent program by such things as having easier eligibility rules, different benefit levels, and stronger and perhaps more individualized medical and other services needed to support workforce participation. A temporary program might be administered by a different agency from SSA with SSA retaining responsibility for the “permanent” program. Many variants of this approach are possible depending on program objectives and costs.

- Changing the current all-or-nothing concept of disability eligibility to a program providing percentages of disability based (at least for less than 100 percent levels) on very specific medically determinable criteria.
- Changing the disqualifying event from “becoming able to work” to something roughly along the unemployment compensation lines of failure to seek or accept work.

Conclusion

In issuing our October 2003 report on the definition of disability, we argued that this is an issue that needs attention. We have found widespread dissatisfaction with the existing system. It may be that, in the end, the existing definition will be retained, and ways will be found to administer it in a manner more consistent with society’s current approach to disability policy. Or it may be that only a definitional change will serve to meet the needs of today’s impaired population in a way that society can approve. In any case, the problems and inconsistencies of the existing system are significant and demand action.

To further the discussion of this subject, the Board sponsored a day-long forum on April 14, 2004 with presentations and discussion by experts and interested parties on the extent to which the current program is or is not consistent with appropriate national disability policy and what changes might be made to the program structure and definition. The text of the presentations is available on the Board’s website at www.ssab.gov.

We encourage the Administration and the Congress to carefully consider how the Social Security disability programs can better meet the high goals set by the Americans with Disabilities Act of assuring the disabled “equality of opportunity, full participation, independent living, and economic self-sufficiency.” In some respects this issue is particularly important for the SSI program since that has developed into a program primarily serving disabled individuals and since that program’s beneficiaries have perhaps even more to gain if they are provided with the incentives and support needed for self-sufficiency.

Hal Daub
Chairman

Dorcas R. Hardy Martha Keys

David Podoff Sylvester J. Schieber Gerald M. Shea

Members of the Board

Hal Daub, Chairman

Hal Daub is currently President and Chief Operating Officer of the American Health Care Association and the National Center for Assisted Living, and Of Counsel with the law firm of Blackwell Sanders Peper Martin in Omaha, Nebraska and Washington, D.C. Previously, he served as Mayor of Omaha, Nebraska from 1995 to 2001, and as an attorney, principal, and international trade specialist with the accounting firm of Deloitte & Touche from 1989 to 1994. Mr. Daub was elected to the United States Congress in 1980, and reelected in 1982, 1984, and 1986. While there he served on the House Ways and Means Committee, the Public Works and Transportation Committee, and the Small Business Committee. In 1992, Mr. Daub was appointed by President George H.W. Bush to the National Advisory Council on the Public Service. From 1997 to 1999, he served on the Board of Directors of the National League of Cities, and from 1999 to 2001, he served on the League's Advisory Council. He was also elected to serve on the Advisory Board of the U.S. Conference of Mayors, serving a term from 1999 to 2001. From 1971 to 1980, Mr. Daub was vice president and general counsel of Standard Chemical Manufacturing Company, an Omaha-based livestock feed and supply firm. A former U.S. Army Infantry Captain, Mr. Daub is a graduate of Washington University in St. Louis, Missouri, and received his law degree from the University of Nebraska. Term of office: January 2002 to September 2006.

Bradley D. Belt

Mr. Belt was appointed on April 21, 2004 to his current position as Executive Director of the Pension Benefit Guaranty Corporation. Previously he was President of the Washington Capital Group, Inc., a consulting firm to corporations, financial institutions, and non-profit organizations on policy matters and business strategy. He previously has held senior management and staff positions in both the public and private sectors. His prior private sector roles include serving as a member of the executive management team of FOLIO*fn*, a financial services and technology company, and Managing Director of The Commonwealth Group, a government relations consulting firm. Mr. Belt also has held a number of senior government posts with the U.S. Congress and the Securities and Exchange Commission (SEC). He served as Senior Vice President for Policy at the Center for Strategic and International Studies (CSIS) where he was responsible for program management, policy planning, and corporate development. He also served as executive director of the National Commission on Retirement Policy. Mr. Belt completed the senior executive fellows program at the Kennedy School of Government at Harvard University, received his law degree from the Georgetown University Law Center, and obtained his undergraduate degree in business administration from the University of Nebraska. Term of office: December 2003 to April 2004.

Dorcas R. Hardy

Dorcas R. Hardy is President of Dorcas R. Hardy & Associates, a government relations and public policy firm serving a diverse portfolio of clients. She was Commissioner of Social Security from 1986 to 1989 and was appointed by President Bush to chair the Policy Committee for the 2005 White House Conference on Aging. Ms. Hardy has launched and hosted her own primetime, weekly television program,

"Financing Your Future," on Financial News Network and UPI Broadcasting and "The Senior American," an NET political program for older Americans. She speaks and writes widely about domestic and international retirement financing issues and entitlement program reforms and is the author of *Social Insecurity: The Crisis in America's Social Security System and How to Plan Now for Your Own Financial Survival*, Random House, 1992. Ms. Hardy consults with seniors' organizations, public policy groups and businesses to promote redesign and modernization of the Social Security and Medicare systems. Additionally, she has chaired a Task Force to rebuild vocational rehabilitation services for disabled veterans for the Department of Veterans Affairs. She received her B.A. from Connecticut College, her M.B.A. from Pepperdine University and completed the Executive Program in Health Policy and Financial Management at Harvard University. She is a Certified Senior Advisor and serves on the Board of Directors of The Options Clearing Corporation, Wright Investors Service Managed Funds, Florida First Coast Service Options and the Board of Visitors of Mary Washington College. Term of office: April 2002 to September 2004.

Martha Keys

Martha Keys served as a U.S. Representative in the 94th and 95th Congresses. She was a member of the House Ways and Means Committee and its Subcommittees on Health and on Public Assistance and Unemployment Compensation. Ms. Keys also served on the Select Committee on Welfare Reform. She served in the executive branch as Special Advisor to the Secretary of Health, Education, and Welfare and as Assistant Secretary of Education. She was a member of the 1983 National Commission (Greenspan) on Social Security Reform. Martha Keys is currently consulting on public policy issues. She has held executive positions in the non-profit sector, lectured widely on public policy at universities, and served on the National Council on Aging and other Boards. Ms. Keys is the author of *Planning for Retirement: Everywoman's Legal Guide*. First term of office: November 1994 to September 1999. Current term of office: October 1999 to September 2005.

David Podoff

David Podoff is a visiting Associate Professor at the Baruch College of the City University of New York. Previously he was Minority Staff Director and Chief Economist for the Senate Committee on Finance. He also served as the Committee's Minority Chief Health and Social Security Counselor and Chief Economist. In these positions on the Committee he was involved in major legislative debates with respect to the long-term solvency of Social Security, health care reform, the constitutional amendment to balance the budget, the debt ceiling, plans to balance the budget, and the accuracy of inflation measures and other government statistics. Prior to serving with the Finance Committee he was a Senior Economist with the Joint Economic Committee and directed various research units in the Social Security Administration's Office of Research and Statistics. He has taught economics at the University of Massachusetts and the University of California in Santa Barbara. He received his Ph.D. in economics from the Massachusetts Institute of Technology and a B.B.A. from the City University of New York. Term of office: October 2000 to September 2006.

Sylvester J. Schieber

Sylvester Schieber is Director of the Research and Information Center at Watson Wyatt Worldwide, where he specializes in analysis of public and private retirement policy issues and the development of special surveys and data files. From 1981 to 1983, Mr. Schieber was the Director of Research at the Employee Benefit Research Institute. Earlier, he worked for the Social Security Administration as an economic analyst and as Deputy Director at the Office of Policy Analysis. Mr. Schieber is the author of numerous journal articles, policy analysis papers, and several books including: *Retirement Income Opportunities in An Aging America: Coverage and Benefit Entitlement*; *Social Security: Perspectives on Preserving the System*; and *The Real Deal: The History and Future of Social Security*. He served on the 1994-1996 Advisory Council on Social Security. He received his Ph.D. from the University of Notre Dame. First term of office: January 1998 to September 2003. Current term of office October 2003 to September 2009.

Gerald M. Shea

Gerald M. Shea is currently assistant to the president for Government Affairs at the AFL-CIO. He previously held several positions within the AFL-CIO, serving as the director of the policy office with responsibility for health care and pensions, and also in various executive staff positions. Before joining the AFL-CIO, Mr. Shea spent 21 years with the Service Employees International Union as an organizer and local union official in Massachusetts and later on the national union's staff. He was a member of the 1994-1996 Advisory Council on Social Security. Mr. Shea serves as a public representative on the Joint Commission on the Accreditation of Health Care Organizations, is a founding Board member of the Foundation for Accountability, Chair of the RxHealth Value Project, and is on the Board of the Forum for Health Care Quality and Measurement. He is a graduate of Boston College. First term of office: January 1996 to September 1997. Current term of office: October 2000 to September 2004.

Members of the Staff

Joe Humphreys, Staff Director

Jack Dalton

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George Schuette

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